

## **FITCH RATES OLATHE, KS GO BONDS 'AA+' & GO NOTES 'F1+'**

Fitch Ratings-New York-13 June 2016: Fitch Ratings has assigned ratings to the following city of Olathe, KS obligations:

- \$30.1 million general obligation (GO) refunding and improvement bonds, series 228 'AA+';
- \$17.2 million GO temporary notes, series 2016-A 'F1+'.

The 2016 bonds and notes are being issued to finance the costs of road improvement projects. The bonds and notes are scheduled to sell on June 21.

Fitch also affirms the following ratings for Olathe:

- Issuer Default Rating (IDR) at 'AA+';
- Approximately \$193.8 million in outstanding GO bonds at 'AA+';
- Approximately \$15.9 million GO temporary notes, series 2015-A at 'F1+'.

The Rating Outlook on the long-term ratings is Stable.

### **SECURITY**

The bonds and notes carry the city's unlimited tax general obligation pledge.

### **KEY RATING DRIVERS**

The affirmation of the 'AA+' rating reflects the city's strong local economy and superior flexibility to control both revenues and expenditures. Despite relatively high revenue volatility, Fitch expects the city will maintain solid reserves in an economic downturn. The city has a low long-term liability burden. The 'F1+' rating is based on the long-term credit quality of the city.

#### **Economic Resource Base**

Olathe is a suburban community located approximately 20 miles southwest of Kansas City, KS and is the seat of Johnson County. The city's population has doubled since 1990, and it presently stands at approximately 132,000.

#### **Revenue Framework: 'aaa' factor assessment**

Fitch expects the city's revenue growth absent policy actions will continue above the level of inflation and in line with the national GDP. The city maintains strong independent legal ability to raise operating revenues.

#### **Expenditure Framework: 'aa' factor assessment**

The natural pace of expenditure growth is in line with revenue growth, and the city has solid control over its main expenditure items despite high carrying costs.

#### **Long-Term Liability Burden: 'aaa' factor assessment**

Long-term liabilities are low at less than 10% of personal income.

#### **Operating Performance: 'aa' factor assessment**

Fitch expects the city will continue to maintain reserves at a level needed for an 'aa' financial resilience assessment during an economic downturn. The city has demonstrated consistent efforts

to build reserves throughout the recent economic recovery, although pension payments are based on a statutory basis that consistently falls short of the actuarially-determined contribution.

## RATING SENSITIVITIES

The rating is dependent on the maintenance of financial flexibility and conservative budgeting practices.

## CREDIT PROFILE

The city benefits from its proximity to the Kansas City MSA in addition to its own vibrant and expanding commercial/industrial sector, anchored by several national companies. Economic indices are favorable, and unemployment is low.

Olathe residents enjoy access to employment opportunities in the larger Kansas City area and benefit from growing employment within the city. Large employers include Garmin and Farmers Insurance, which employ 3,178 and 3,000, respectively, within the city.

### Revenue Framework

The city's revenue growth is expected to continue to be strong given the vibrant tax base and diverse revenue stream. While the implementation of a statewide tax lid in 2018 will limit the city's ability to adjust the property tax rate, Fitch believes exemptions in the law will enable the city to continue to increase revenues as necessary. The Fitch Analytical Sensitivity Tool indicates moderate revenue volatility, but, controlling for accounting changes, general fund revenues exhibit stability. Property tax revenue makes up a lower 16.7%.

Fitch expects revenue growth to remain in line with the national GDP. Diverse revenue streams leverage the strong and growing tax base.

The city should continue to have a high level of control over revenue increases even after the implementation of the tax lid, which will limit the ability to increase property taxes to CPI growth. Exemptions to the lid include public safety (as well as debt service) expenditures, which will enable the city to increase property tax revenue if necessary. The city also maintains some ability to adjust other locally controlled revenues.

### Expenditure Framework

Fitch expects the natural growth rate of expenditures will be marginally above the strong natural growth rate of revenue. The city's main expenditure items include public safety and public works (52.7% and 17% of general fund expenditures, respectively, in fiscal 2014).

The city has a solid degree of flexibility with its main expenditure items. The city has no labor contracts, so there is flexibility to control headcount. Carrying costs are sizable at 26% of governmental expenditures. Fitch expects the level of carrying costs to decline given the city's rapidly declining direct debt (86% of debt matures within 10 years). 74.6% of the carrying costs are for debt service, which is more stable and predictable than payments for pension and OPEB obligations.

### Long-Term Liability Burden

Olathe's long-term liabilities are low, with the combined unfunded pension liability and overall debt as a percentage of personal income projected to be only 7.3% in 2016 post-refunding. The city participates in two cost-sharing, multiple-employer defined benefit pension plans (the Kansas Public Employees Retirement System and the Kansas Police and Firemen's Retirement System) and makes contractually-required contributions that consistently fall short of the actuarially-determined levels. Fitch calculates the city's share of the net pension liability to equate to a 58.5% ratio of assets to liabilities, assuming a 7% discount rate.

## Operating Performance

The city had strong available general fund reserve levels in 2014 (30.2% of general fund expenditures) which increased to 35.1% in 2015 (unaudited). Fitch expects the city will continue to maintain strong reserve levels throughout an economic cycle given its high degree of inherent budget flexibility and demonstrated commitment to maintaining sound reserves.

Fitch views as a credit concern the statutory basis for required contributions to the multiple-employer pension plans, which falls short of the actuarially-determined rate even during economic recovery. Fitch believes the shortfall will likely cause net pension liabilities and future pension contributions to grow.

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Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

### Applicable Criteria

Rating U.S. Public Finance Short-Term Debt (pub. 17 Nov 2015)  
[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=873508](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=873508)  
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)  
[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=879478](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478)

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