

# RatingsDirect®

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## Summary:

# Olathe, Kansas; General Obligation

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## Summary:

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### Credit Profile

US\$30.075 mil GO rfdg and imp bnds ser 228 due 10/01/2028

*Long Term Rating* AA+/Stable New

US\$30.0 mil GO temp nts ser 2016A dtd 07/26/2016 due 10/01/2028

*Short Term Rating* SP-1+ New

Olathe GO

*Long Term Rating* AA+/Stable Affirmed

Olathe GO

*Short Term Rating* SP-1+ Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and stable outlook to Olathe, Kan.'s series 228 general obligation (GO) refunding and improvement bonds and affirmed its 'AA+' long-term rating, with a stable outlook, on the city's existing GO debt.

At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to the city's series 2016A GO temporary notes and affirmed its 'SP-1+' short-term rating on the city's existing GO notes.

The short-term rating reflects our view of the city's long-term rating and low market risk profile, including the authority to issue takeout debt and the availability of pertinent disclosure information. State law requires the authorization of long-term takeout GO debt before the issuance of temporary notes. The notes are a GO of Olathe, secured by its full faith, credit, and resources.

The city's full-faith-and-credit pledge, which includes an unlimited-ad valorem-property-tax pledge, secures the GO bonds and temporary notes. The city will also pay debt service on the GO bonds partially from special assessments levied against properties that benefited from certain improvements. We rate the city's debt outstanding supported by special assessments based on its GO pledge.

We understand management will use series 2016A temporary note proceeds to fund various public improvements citywide and series 228 GO bond proceeds to refinance portions of the city's series 211 GO bonds for debt service savings and fund various public improvements citywide.

The long-term rating reflects our opinion of the following factors for the city, specifically its:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the

total governmental fund level in fiscal 2015;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 31% of operating expenditures;
- Very strong liquidity, with total government available cash at 105% of total governmental fund expenditures and 5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 21.1% of expenditures and net direct debt that is 156.7% of total governmental fund revenue, but rapid amortization, with 73.9% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

### **Strong economy**

We consider Olathe's economy strong. The city, with an estimated population of 135,233, is in Johnson County in the Kansas City MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 112% of the national level and per capita market value of \$84,783. Overall, the city's market value grew by 4.4% over the past year to \$11.5 billion in 2017. The county unemployment rate was 3.4% in 2015.

Olathe, Johnson County's seat, is 20 miles southwest of downtown Kansas City, Mo. While Olathe's residents have access throughout the Kansas City MSA, the city's direct employment base has continued to expand. Leading employers include:

- GARMIN International (3,000 employees),
- Farmers' Insurance Group (3,000),
- Johnson County Unified School District No. 233 (2,000),
- Johnson County (2,000), and
- Olathe Medical Center (1,600).

County unemployment has historically been below state and national averages. The city's property tax base has grown steadily over the past four fiscal years. It has increased by an average of 4.1% annually since fiscal 2011 to \$1.6 billion of assessed valuation (AV) for fiscal 2016. Preliminary fiscal 2017 AV used for budgeting purposes suggests the tax base grew by an additional 5.3% to \$1.7 billion due to ongoing economic development and expansions. The city's tax base is diverse with the 10 leading property taxpayers accounting for only 4.8% of AV.

### **Very strong management**

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include management's:

- Use of extensive planning and analysis to devise revenue and expenditure assumptions based on historical trend analysis, along with the use of data from outside sources to assist with forecasting;
- Quarterly budget updates to the city council, including budget-to-actual performance;
- Use of a rolling five-year financial forecast that identifies potential expenditure pressure, with an emphasis on maintaining structural balance;
- Use of a rolling five-year capital improvement plan with funding sources identified;
- Formal investment policy that follows state guidelines with monthly reporting of performance and holdings to the council;
- Formal debt management policy, supplemented by administrative guidelines, that outlines certain metrics and ratios

the city needs to comply with; and

- Formal fund balance policy of maintaining a minimum general fund balance of 15% of revenue based on potentially unexpected needs, with an annual target of 30% of revenue.

### **Strong budgetary performance**

Olathe's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 1.5% of expenditures, and surplus results across all governmental funds of 3.8% of expenditures in fiscal 2015. General fund operating results of the city have been stable over the past three years, with a result of 1.4% of expenditures in 2014 and 0.8% of expenditures in 2013.

We expect budgetary performance to remain strong over the next two fiscal years. Officials expect a similar performance in fiscal 2016 compared with fiscal 2015 results, and they are projecting the general fund will end fiscal 2016 with a 1.7% surplus; we expect similar results across all governmental funds.

For fiscal 2017, we expect the city will likely continue its annual practice of adopting balanced budgets. In fiscal 2015, sales taxes accounted for 54% of general revenue, followed by property taxes at 17% and franchise taxes at 13.5%. The city's sales tax base has historically been a reliable revenue stream, and it has increased by an aggregate of 21.8% over the past five years.

### **Very strong budgetary flexibility**

Olathe's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 31% of operating expenditures, or \$27 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 30% of expenditures in 2014 and 31% of expenditures in 2013.

The city is projecting to add roughly \$1.5 million to fund balance by fiscal year-end 2016; it does not currently plan to draw from reserves significantly in fiscal 2017, which is partially supported by the city's history of adopting balanced budgets and five-year financial forecast suggesting fund balance will remain stable. Therefore, we expect budgetary flexibility to remain very strong over the next two fiscal years.

### **Very strong liquidity**

In our opinion, Olathe's liquidity is very strong, with total government available cash at 105% of total governmental fund expenditures and 5x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Overall, we expect total government cash will likely remain very strong for the next two fiscal years. As of April 30, 2016, the city's investments were mainly in certificates of deposit or U.S. Treasury notes and agencies, all with fixed rates, which we do not view as aggressive. We believe Olathe has strong access to external liquidity because it has issued bonds frequently during the past 20 years, including GO and utility revenue bonds.

### **Weak debt and contingent liability profile**

In our view, Olathe's debt and contingent liability profile is weak. Total governmental fund debt service is 21.1% of total governmental fund expenditures, and net direct debt is 156.7% of total governmental fund revenue.

Approximately 73.9% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Overall net debt is 4.5% of market value. We understand Olathe plans to issue roughly \$22 million in GO temporary notes and \$30.5 million in revenue bonds over the next two years. Management also plans to issue about \$49 million in GO bonds, portions of which will provide permanent financing for current temporary notes outstanding. Therefore, we expect the city's debt and contingent liability profile to remain weak over the next two years.

Olathe's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 5.5% of total governmental fund expenditures in fiscal 2015. Of that amount, 4.7% represented required contributions to pension obligations, and 0.8% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2015.

Olathe participates in the Kansas Public Employees' Retirement System (KPERS) and the Kansas Police & Firemen's Retirement System (KP&F), both of which are state-administered, cost-sharing, multiemployer, defined-benefit pension plans. State law provides that employer contribution rates are determined based on the results of an annual actuarial valuation. Olathe's combined contribution to KPERS and KP&F was \$7.3 million in fiscal 2015, and the city has historically met the statutory-required contribution in full. At Dec. 31, 2015, the city's fiduciary net position as a percent of the total liability was 64.95% for both KPERS and KP&F. The city's very strong budgetary flexibility and fairly low pension contribution compared to expenditures somewhat offset our concerns with the plan's relatively low funded ratio because we believe Olathe has the flexibility to handle contribution rate increases the state could impose.

Olathe also provides health insurance benefits to retirees and their dependents, which it funds through pay-as-you-go financing; the unfunded liability was \$22.4 million as of Jan. 1, 2015, the most recent actuarial valuation. In fiscal 2015, Olathe funded 61%, or \$1.2 million, of the annual OPEB cost.

### **Strong institutional framework**

The institutional framework score for Kansas municipalities with more than \$275,000 in annual gross receipts and more than \$275,000 in GO or revenue bonds outstanding is strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion that it will likely not change the rating over the two-year outlook period. We also expect the city will likely maintain its very strong budgetary flexibility and liquidity, supported by very strong management. In addition, the outlook reflects our opinion that the city's economy will likely continue to grow over the next two years due to Olathe's access to the Kansas City MSA.

### **Upside scenario**

We could raise the rating if the city's income and market value per capita were to continue to grow to levels we consider comparable with its higher rated peers, coupled with its debt profile improving to levels we consider adequate.

### Downside scenario

We could lower the rating if available fund balance were to deteriorate to levels we consider just strong due to consistently weak budgetary performance.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 13, 2016)		
Olathe go imp and rfdg bnds ser 221 dtd 06/28/2012 due 10/01/2013-2024		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Olathe GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Olathe GO imp bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Olathe GO rfdg bnds ser 219 dtd 05/26/2011 due 10/01/2012-2023		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Olathe GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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