Summary:
Olathe, Kansas; General Obligation; Note

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Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating and stable outlook to Olathe, Kan.'s roughly $32.2 million series 233 general obligation (GO) improvement and refunding bonds and affirmed its 'AA+' long-term rating, with a stable outlook, on the city's existing GO debt.

S&P Global Ratings also assigned its 'SP-1+' short-term rating to Olathe's roughly $75.6 million series 2020A GO temporary notes and affirmed its 'SP-1+' short-term rating on the city's existing GO temporary notes.

The short-term rating reflects our opinion of the city's:

- GO debt,
- Low market-risk profile,
- Authority to issue takeout debt, and
- Pertinent information it discloses.

The city's full-faith-and-credit pledge, including its unlimited-ad valorem-property-tax pledge, secures the GO bonds. The city also pays debt service on certain GO bonds, partially from special assessments levied against properties that benefited from certain improvements. We rate special-assessments-supported debt based on the city's GO pledge.

Officials intend to use series 233 bond proceeds to permanently finance the construction of certain public improvements and retire portions of the city's series 218 GO bonds for debt-service savings. They also plan to use series 2020A note proceeds to provide interim financing for the construction of certain public improvements. Officials will also use a portion of note and bond proceeds to retire the city's series 2019A temporary notes due Aug. 1, 2020.

Credit overview

We expect ongoing economic development will likely continue to support growing sales and property tax bases, the city's two leading general revenue sources. In our opinion, Olathe will benefit from its access to the broad and diverse
Kansas City metropolitan statistical area (MSA), which we view as a positive credit factor. What we consider very strong management, which has resulted in consistently strong operating performance, further supports credit quality. We also expect very strong management will likely be a key factor in successfully navigating ongoing growth challenges.

We imagine challenges associated with COVID-19 and the related recession could pressure Olathe's budgets, as it will most local governments, during the next one year to two years. (For further information, please see the article, titled "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions," published April 2, 2020, on RatingsDirect.) In-line with our view of the ongoing economic contraction, we expect sales tax and franchise fee revenue to lag historical performance. (For further information, please see the article, titled "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020.) We, however, do not expect it to have an effect on Olathe's ability to maintain strong finances during the next few fiscal years due to its very strong cash and reserves.

In addition, management has identified some expenditure savings for fiscal years 2020 and 2021. Management indicates it will continue to monitor budget-to-actual performance closely and make additional adjustments as necessary. We expect budgetary performance will likely remain stable. Therefore, we do not expect to change our rating during the next few years. Although our outlook is generally for two years, we see significant downside risk because of COVID-19 and the related recession during the next six months to 12 months.

The long-term rating also reflects our opinion of the city's:

- Very strong economy, with access to a broad and diverse Kansas City MSA;
- Very strong financial management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 128.1% of total governmental-fund expenditures and 6.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 19.8% of expenditures and net direct debt that is 150% of total governmental-fund revenue, but rapid amortization, with 87.6% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

**Environmental, social, and governance (ESG) factors**

We have analyzed the city's environmental factors, including health-and-safety risks posed by COVID-19, coupled with social-and-governance risks relative to the economy; financial management; budgetary performance; and budgetary flexibility, as well as its debt-and-liability profile, and determined all are in-line with our view of the sector standard.

We consider stormwater and flooding the greatest environmental threats to the city, but management has been proactively addressing identified flooding issues during the past decade as part of its Federal Emergency Management
Agency flood plain map; improvement projects are continuing during the next five years to address additional locations.

**Stable Outlook**

**Downside scenario**
Albeit unlikely, we could lower the rating if available fund balance were to deteriorate to levels we consider just strong due to consistently weak budgetary performance.

**Upside scenario**
We could raise the rating if income and market value per capita were to reach levels we consider comparable with higher-rated peers, coupled with improved debt to levels we consider adequate.

**Credit Opinion**

**Very strong economy**
We consider Olathe's economy very strong. The city, with a population estimate of 138,650, 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 at 121% of the national level and per capita market value of $110,301. Overall, market value grew by 6.5% during the past year to $15.3 billion in fiscal 2019. County unemployment was 2.8% in 2019.

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

- Olathe Unified School District (4,500 employees),
- GARMIN International (4,000),
- Olathe Medical Center (2,500),
- Farmers Insurance (2,315), and
- Johnson County government (2,000).

The local tax base is very diverse: The 10 leading taxpayers accounted for only 5.3% of total assessed value (AV) in fiscal 2019. AV has grown steadily during the past five fiscal years, which officials largely attribute to ongoing economic development and expansion. Officials do not expect property valuations to decrease for fiscal 2020 despite the recession.

Retail, manufacturing and warehouse, and office development continues to grow citywide. A newly approved class A multifamily, $40 million residential project in downtown Olathe should begin in summer 2020. Industrial development has also grown during the past year due to the region's centralized location and opening of BNSF Intermodal in Edgerton.
In 2016, Garmin began expanding its headquarters in the city, including a 720,000-square-foot manufacturing and distribution center and a new loop road. Construction was complete in 2018. The renovation of existing manufacturing and warehouse space should take about two years and accommodate 2,600 more employees. When complete, the expanded 2.1-million-square-foot headquarters will include walking trails and an athletic facility.

**Very strong management**

We view the city's financial 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, coupled with using 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 identified funding sources;

- Formal investment-management policy that follows state guidelines with monthly performance-and-holdings reports to the council;

- Formal debt-management policy, supplemented by administrative guidelines, that outlines certain metrics and ratios it needs to comply with annually; and

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

**Adequate budgetary performance**

Olathe's budgetary performance is adequate, in our opinion. The city had slight surplus operating results in the general fund at 1.4% of expenditures and surplus results across all governmental funds at 10.1% in fiscal 2018. General fund operating results have been stable during the past three fiscal years with 0.9% of expenditures in fiscal 2017 and 1% in fiscal 2016.

In assessing budgetary performance, we adjusted for annually recurring transfers into and from the general fund and one-time capital-project expenditures across total governmental funds, with the use of debt proceeds.

Olathe, which budgets on a calendar basis, has maintained solid budgetary performance recently due partially to conservative management, where year-end results regularly outperform large planned deficits. Our forward-looking opinion of adequate budgetary performance reflects uncertainty concerning the effect and duration of COVID-19 and the related recession on the city.

Actual revenue exceeding the budget by $3.1 million supported fiscal 2018 performance due largely to increased property-tax collections and charges for services. For unaudited fiscal 2019, management reports revenue, once again, exceeded expenditures by about $411,672, or a 0.4% operating surplus.
With sales taxes generating 52% of general fund revenue, management has adjusted projected sales tax receipts downward by $7.4 million for fiscal 2020 to reflect potential lost revenue due to Kansas' stay-at-home order for COVID-19. Management expects there will be a slow return of consumer confidence during the recovery in fiscal 2020.

It will continue this approach while preparing the fiscal 2021 budget. Officials expect a balanced fiscal 2021 budget upon adoption. We understand officials implemented expenditure reductions to address expected revenue shortfalls, including:

• An immediate hiring freeze on vacant positions and all future vacant positions,
• An expenditure cap on all department budgets, and
• The deferring of capital expenditures.

**Very strong budgetary flexibility**

Olathe's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 29% of operating expenditures, or $30.5 million. During the past three fiscal years, total available fund balance was consistent at 29% of expenditures in fiscal 2017 and 31% in fiscal 2016.

Olathe has historically maintained very strong reserves, in our view, exceeding 29% of operating expenditures during the three most recent fiscal years. Its formal reserve policy requires maintaining a minimum general fund balance of no less than 15% of revenue with an annual target of 30%, which it has regularly exceeded. Unaudited fiscal 2019 results indicate the city added another $308,000 to reserves, which increased total available general fund balance to $30.8 million, or 29.2% of expenditures.

We note our ratios slightly differ from the city's policy due to our available fund balance calculations including assigned, unassigned portions; meanwhile, Olathe successfully stays within its targeted 30% of expenditures, using total general fund balance. For fiscal 2020, management plans to use about $3.3 million of reserves to offset forecast reduced revenue partially due to COVID-19. We estimate available fund balance will likely remain relatively stable at 30% of expenditures, supported by officials implementing cost controls to address expected revenue decreases.

Officials plan to adopt a balanced budget, without using reserves, for fiscal 2021. Therefore, we expect budgetary flexibility will likely remain very strong during the next few fiscal years.

**Very strong liquidity**

In our opinion, Olathe's liquidity is very strong, with total government available cash at 128.1% of total governmental-fund expenditures and 6.5x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity if necessary.

Olathe demonstrates strong access to external liquidity with its access to the debt market during the past two decades, including issuing numerous GO and utility-revenue-supported bonds. Olathe has historically maintained, what we consider, very strong cash. We estimate available cash remained relatively stable for unaudited fiscal 2019. Although officials plan to use about $3.3 million in fiscal 2020 due to reduced forecast revenue related to COVID-19, officials plan to adopt a balanced fiscal 2021 budget. Therefore, we do not expect cash will likely materially weaken during the
next few fiscal years.

All investments comply with state statutes and Olathe's internal investment-management policy. Olathe held investments primarily in certificates of deposit, the state investment pool, and government agencies and treasury notes; we do not consider any of these aggressive. Accordingly, we do not expect very strong liquidity will likely deteriorate during the next few fiscal years.

**Weak debt-and-contingent-liability profile**

In our view, Olathe's debt-and-contingent-liability profile is weak. Total governmental-fund debt service is 19.8% of total governmental-fund expenditures, and net direct debt is 150% of total governmental-fund revenue. Officials plan to retire about 87.6% of direct debt during 10 years, which is, in our view, a positive credit factor.

Total direct debt is roughly $410 million and includes the city's special purpose and utility revenue debt. Olathe's overall net debt equals 5.4% of market value. We understand management currently plans to issue roughly $7.2 million of additional GO debt in fiscal 2021. Since we do not consider this significant, we expect the debt-and-contingent-liability profile will likely remain weak during the next two years.

The combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 5.6% of total governmental-fund expenditures in fiscal 2018: 4.6% represented required contributions to pension obligations and 1% represented OPEB payments. Olathe made its full annual required pension contribution in fiscal 2018.

**Pension and OPEB**

- We do not view pension and OPEB liabilities as an immediate credit pressure because required contributions currently make up a small portion of total governmental expenditures.
- If required material contributions were to increase unexpectedly during the next few fiscal years, we think this would not have an effect on fiscal stability due to the sizable reserves officials could use for contingencies, if needed.

As of June 30, 2018, the latest measurement date, Olathe participates in Kansas Public Employees' Retirement System, which is 68.9% funded with a net pension liability equal to $75.5 million. The state actuarially determines contributions, and Olathe has historically funded annual required costs in full.

Actuarial assumptions include a 7.75% discount rate, which we view as aggressive, representing market risk and resulting in contribution volatility if the plan fails to meet assumed investment targets. In addition, contributions are likely to grow due to level payroll funding rather than level-dollar contributions, which would result in consistent payments.

Olathe also provides health insurance to retirees and their dependents, which it funds through pay-as-you-go financing. The city's plan contribution was $1.7 million in fiscal 2018.

**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.
Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2019 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of June 5, 2020)

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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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings’ public website at www.standardandpoors.com. Use the Ratings search box located in the left column.