Summary:
Topeka, Kansas; General Obligation; Note

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Credit Profile

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Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Topeka, Kan.'s series 2014-A general obligation (GO) bonds. The outlook is stable. We also assigned an 'SP-1+' short-term rating to the city's series 2014-A GO temporary notes based on our assessment of the city's long-term general creditworthiness.

The bonds and notes are secured by the city's unlimited-tax GO pledge. Bond and note proceeds will used for various municipal improvements and to retire the 2013-A temporary notes.

The rating reflects our assessment of the following factors for the city.

- Adequate-to-strong economy, with Topeka as the center of a metropolitan statistical area (MSA);
- Strong budgetary flexibility with average reserves between 8%-15% of general fund expenditures for the past three fiscal years;
- Strong budgetary performance with expected continued improvements;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions and good financial policies; and
- Weak debt and contingent liabilities position, albeit with above-average amortization.

Adequate-to-strong economy

We view Topeka's economy as adequate to strong, with per capita market value at roughly $59,300 and projected per capita effective buying income at 86% of the national average. With a population of approximately 128,000, Topeka serves both as the seat of Shawnee County and the state capital. The city's economy is broad and diverse and anchors the Topeka MSA. Topeka's top four principal employers are the state of Kansas (6,438 employees), health care provider Stormont-Vail Health Care (4,418), United School District No. 501 (2,418), and the federal government (2,069). Despite minor fluctuations in the last four fiscal years, the city's assessed valuation (AV) remains stable. Management projects AV will continue to rise based on appreciation in real property and state assessed properties although personal property is expected to decline slightly due to statutory changes. Over the past three fiscal years, the city's unemployment rate has tracked the state's and stood at 5% in May 2014, according to the Bureau of Labor Statistics. As result of economic development efforts and partnerships, management is optimistic that retail and commercial growth will continue to bolster the city's economic base.
Strong budgetary flexibility
Topeka's budgetary flexibility is very strong, with available reserves averaging roughly 10.13% of expenditures in the last three fiscal years. For fiscal 2013, available reserves totaled approximately $8.9 million, or 11.6% of expenditures which we consider very strong. For the current fiscal year, reserves are expected to increase to about 14.3% of estimated expenditures.

Very strong liquidity
In our opinion, very strong liquidity supports Topeka's finances, with total government available cash at 60% of total government fund expenditures and at 4.2x debt service. Based on past issuance of debt, we believe Topeka has strong access to capital markets to provide for liquidity needs if necessary.

Strong management conditions
Topeka's management conditions are strong with "good" financial practices under our Financial Management Assessment. Highlights include the city's historic trend analysis and use of independent sources for projecting revenue and expenditures for budget purposes. The city regularly monitors its budget performance and provides written reports to the public. Funds are reviewed on a monthly and quarterly basis with amendments made within parameters established by Kansas law. The city also has a five-year financial forecast which is reviewed and updated annually. The five-year capital plan outlines projects with corresponding funding sources and is reviewed each year. Topeka also has investment and debt management policies, which reflect statutory limitations and the city's own metrics. Investment reports are prepared for council monthly and discussed on a quarterly basis. The debt management policy calls for a general fund balance reserve of no less than 10% of general fund revenue for the preceding year. However, management aims to sustain reserves at 15%.

Strong budgetary performance
Following budgetary weakness in fiscal 2011 and 2012, Topeka's budgetary performance has improved to a strong level in fiscal 2013 and 2014. In fiscal 2013, the city achieved a surplus of 4% for the general fund, after making adjustments for payments in lieu of taxes and transfers associated with the transfer of the city's parks and recreation operations to the county. The total governmental funds reported a slight budget deficit of 0.5%. For fiscal 2014, the city is projecting a general fund surplus of $3.4 million, or 4% of projected expenditures. The total governmental funds operating result should be in line with the city's projection of a surplus of 0.8% of expenditures. The projected surpluses are attributable to stronger-than-expected sales tax receipts reflective of stronger economic conditions and expenditure controls. To further build fund balance, management has implemented various expenditure controls to address the structural imbalances in 2011 and 2012.

Weak debt and contingent liability profile
Topeka's debt and contingent liability profile, is in our opinion, weak. Net direct debt to total governmental funds revenue and total governmental funds debt service to total governmental fund expenditures are 169% and 14.2%, respectively. Approximately 73% of the city's debt will be repaid over 10 years, which we consider a positive credit factor. However, our view is tempered by the city's debt plan for the medium term.

The city participates in the Kansas Public Employees Retirement System (KPERS) and Kansas Police and Firemen's Retirement System (KP&F), both cost-sharing, multiple-employer, defined-benefit pensions plans. Topeka contributed approximately $2.3 million and $6.2 million to KPERS and KP&F in fiscal 2013, respectively. Other postemployment
benefit (OPEB) contributions totaled approximately $440,000. The pension and OPEB costs for fiscal 2013 represented 6.2% of total governmental expenditures.

**Strong Institutional Framework**
We consider as strong the Institutional Framework score for Kansas municipalities with gross receipts greater than $275,000 or GO revenue bonds outstanding greater than $275,000.

**Outlook**
The stable outlook on the long-term rating reflects our two-year view that the city will sustain its reserves and achieve growth through economic development efforts and improvements in the overall economy. We also expect budgetary performance to strengthen as a result of effective budgetary controls. Should the city sustain reserves at or above 15% of expenditures, coupled with consistent operating surpluses in the general and total governmental funds, we could raise the rating. While unlikely, should the city's budgetary performance weaken, coupled with deterioration in reserves or the debt and liability profile, we could lower the rating.

**Related Criteria And Research**

**Related Criteria**
USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

**Related Research**
S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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