Summary:
Topeka, Kansas; General Obligation; Note

Primary Credit Analyst:
Andy Hobbs, Dallas (972) 367-3345; Andy.Hobbs@spglobal.com

Secondary Contact:
Ann M Richardson, Dallas (214) 765-5878; ann.richardson@spglobal.com

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Credit Profile

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Rationale

S&P Global Ratings revised the outlook on Topeka, Kan. to stable from positive. While the economy remains adequate, economic metrics have not improved to levels commensurate with a higher rating category. At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's previously issued general obligation (GO) debt. We have also assigned our 'AA' long-term rating to Topeka's series 2017B GO bonds and our 'SP-1+' rating to the city's series 2017A GO temporary notes.

An unlimited tax, levied on all taxable property within Topeka, secures the bonds. Proceeds from the sale of 2017B GO bonds will fund about $11 million in general improvements and refund existing series 2012 GO bonds, for a projected 3.3% net present value savings with no extension of the final maturity. The 2017A bonds will fund approximately $23 million in general improvements and refund a portion of the series 2016A notes.

Previously issued bonds including the series 2016 refunding bonds and 2011A bonds have additional revenue streams that support the obligations. As such, the multiple revenue streams criteria represent our assessment of the multiple pledges connected with the bonds. The 2016 bonds in conjunction with the city's ad valorem pledge are also secured by tax incremental revenues generated within the College Hill Redevelopment District. The 2011A bonds are additionally secured from state sales tax revenues and tax revenues generated within the Heartland redevelopment district. Given the lack of legal framework surrounding the pledges as well as the current revenue streams, we are determining the rating based on the stronger GO pledge.

The ratings reflect our assessment of Topeka's:

- Adequate economy, with market value per capita of $57,032 and projected per capita effective buying income of 84.9% of the national level, but that is benefitting from 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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 23% of operating expenditures;
• Very strong liquidity, with total government available cash at 80% of total governmental fund expenditures and 5.7x governmental debt service, and access to external liquidity we consider strong;
• Adequate debt and contingent liability profile, with debt service carrying charges at 13.9% of expenditures and net direct debt that is 115.4% of total governmental fund revenue, as well as rapid amortization, with 67.0% of debt scheduled to be retired in 10 years; and
• Strong institutional framework score.

Adequate economy
We consider Topeka's economy adequate. The city, with an estimated population of 127,472, is located in Shawnee County in the Topeka, KS MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 84.9% of the national level and per capita market value of $57,032. Overall, the city's market value grew by 2.7% over the past year to $7.3 billion in 2016. The county unemployment rate was 4.1% in 2016.

Topeka's broad-and-diverse economy is stable, and is expected to remain so in the near term given ongoing development in the city. Topeka is the state capital and home to several large employers, including the state (4,500 employees) and federal government, the local school district, St. Francis Hospital and Medical Center, Goodyear Tire and Rubber Co., Blue Cross Blue Shield, and other nationwide insurance providers. City officials report stable development continues throughout Topeka, including Mars Chocolate's recently announced $55 million investment in its local facility, Reser's Fine Foods expanding operations with an $86.5 million investment, Federal Home Loan Bank of Topeka's construction of an 80,000-square-foot, $26 million headquarters, and many other smaller manufacturing operations. The Cyrus Hotel development, a 100-room boutique hotel, broke ground in late 2016, and Wheatfield Village Development District continues its mixed-use planned development. The city acts as a major retail center, accounting for 91% of sales taxes generated in the county. Topeka's unemployment rate has historically been below the national average and continues to fall from highs of 2009 and 2010.

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 the city's short- and long-term historical trend analysis and use of independent sources, such as the Kansas Consensus Revenue Estimating Group, for projecting budget revenue and expenditures. The city regularly monitors its budget performance and provides written budget-to-actual financial reports monthly and quarterly to the council as well as the public. The city maintains a multiyear financial forecast for revenues and expenditures that identifies any troublesome trends and provides feedback to the current budget.

The city recently moved to a 10-year capital plan from a five-year one. The plan outlines projects with corresponding funding sources and is reviewed annually. Investment and debt management policies reflect statutory limitations and city-specific metrics. Investment reports, which include holdings and earnings, are prepared for the council monthly. A formal debt policy is in place that limits new GO borrowing among other things, and is annually reviewed by the governing body. Topeka's formal reserve policy calls for a general fund balance reserve of no less than 10% of general fund revenue for the preceding year. However, as part of the city's long-term financial plan, it aims to sustain reserves at 15% of general fund expenditures based on operational needs and to protect against unanticipated expenditures.
Strong budgetary performance
Topeka's budgetary performance is strong in our opinion. The city had operating surpluses of 1.7% of expenditures in the general fund and of 4.6% across all governmental funds in fiscal 2016.

The city has a history of maintaining stable budgetary performance that is grounded in conservative budgeting practices and a history of positive budget variances. In fiscal 2016 the city's general fund revenues were primarily derived from sales taxes (34%), property taxes (28%), and franchise fees (15.7%). The general fund revenue mix has shifted away from reliance on more volatile sales taxes over the past 10 years. In fiscal 2007, more than 40% of general fund revenues were derived from sales taxes, with property taxes accounting for just 18% of total revenues. In addition to stable revenue streams and conservative budgeting, Topeka benefits from a dedicated citywide sales tax for infrastructure maintenance that is voter approved and in place until October 2019, as well as an economic-development sales tax, which was recently extended 15 years by voters. City officials report year-to-date trends indicate stable financial performance through the first half of the year. Revenue and expenditure trends are both slightly below budgeted numbers and the city anticipates a modest operating surplus at fiscal year-end 2017.

Very strong budgetary flexibility
Topeka's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 23% of operating expenditures, or $20.2 million.

Fund balances have historically been maintained above the city formal reserve policy. Given current trends we anticipate very strong budgetary flexibility to continue in the near term. Officials anticipate a modest operating surplus for fiscal 2017 in the general fund and a modest increase to available fund balance.

Very strong liquidity
In our opinion, Topeka's liquidity is very strong, with total government available cash at 80.0% of total governmental fund expenditures and 5.7x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

The city demonstrates a consistent ability to tap the capital markets through routinely issuing both GO-supported debt as well as revenue-supported debt. The city's cash position will remain stable in the near term, in our view. Topeka has no variable-rate debt or swaps in its portfolio nor any obligations that would challenge its near-term liquidity position. Its investments are limited to pools and highly liquid instruments such as certificates of deposit, and Treasury bonds, as prescribed by Kansas law.

Adequate debt and contingent liability profile
In our view, Topeka's debt and contingent liability profile is adequate. Total governmental fund debt service is 13.9% of total governmental fund expenditures, and net direct debt is 115.4% of total governmental fund revenue. Approximately 67.0% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city has no direct purchase obligations with acceleration provisions or transmittal risk in its portfolio, but rather traditional fixed-rate GO and revenue debt. Officials anticipate annual GO borrowing for capital projects will be limited to $9 million, which is a long-standing city council policy. Future special-assessment borrowing is expected to be...
limited and given the amortization of existing debt, we anticipate a stable debt profile in the near term.

Topeka's combined required pension and actual other postemployment benefits contributions totaled 7% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

As part of the state's defined benefit retirement plan, the Kansas Public Employees' Retirement System, the city continues to fulfill its annual required contribution. Topeka has historically contributed 100% in the past three fiscal years and anticipates cost pressures related to the annual required contribution. The combined required contribution for local employees as well as police and fire workers in 2016 was $10.1 million; at Dec. 31, 2016, the plan's fiduciary net position was 69% funded.

The city's health plan is self-funded and it has a single-employer plan for retirees' health benefits, which is financed on a pay-as-you-go basis. Retirees pay the same premium established for active employees. In 2016 the city had 164 retirees, contributing $1,054,084. The total cost of health-insurance claims and administrative fees for retirees was $1,028,784.

**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 our opinion that the key credit factors, including local economic metrics, as well as the rating will remain stable in the two-year time horizon. We anticipate the city will maintain very strong financial reserves, which are bolstered by solid fiscal-management practices.

**Upside scenario**
If Topeka's economy continues to expand and improves to strong, resulting in income levels that we consider strong while maintaining existing adequate debt metrics, we could raise the rating.

**Downside scenario**
Significant deterioration in the city's financial position or operations could lead to a negative rating action, although this is not anticipated in the two-year time horizon.

**Related Research**
2016 Update Of Institutional Framework For U.S. Local Governments
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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 for further information. Complete ratings information is available to subscribers of RatingsDirect at 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. Use the Ratings search box located in the left column.