Summary:
Topeka, Kansas; General Obligation; Note

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<td>US$32.655 mil GO temp nts ser 2016A due 10/01/2017</td>
<td>Short Term Rating</td>
<td>SP-1+</td>
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<tr>
<td>US$22.915 mil GO bnds ser 2016B due 08/15/2036</td>
<td>Long Term Rating</td>
<td>AA/Positive</td>
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Rationale
S&P Global Ratings assigned its 'AA' long-term rating to Topeka, Kan.'s series 2016B general obligation (GO) bonds and its 'SP-1+' rating to the city's series 2016A GO temporary notes. At the same time, we affirmed our 'AA' rating on the city's previously issued GO debt. The outlook is positive.

The series 2016B GO bonds and series 2016A GO temporary notes are secured by an unlimited property tax levied on all taxable property within the city. Officials will use proceeds to refund a portion of the city's existing debt and make citywide improvements.

Topeka's existing series 2016A GO bonds and series 2016 full faith and credit tax increment refunding bonds are secured by the city's unlimited-tax GO pledge. Although the series 2016 refunding bonds are also secured by tax incremental revenues generated within the College Hill Redevelopment District, pledged tax increment financing revenues generate only 50% of debt service, so we are determining the rating based on the stronger GO pledge. The multiple revenue streams criteria represent our assessment of the multiple pledges connected with the series 2016 tax increment refunding bonds.

The rating reflects what we view as Topeka's:

- Adequate economy, with projected per capita effective buying income at 83.2% and market value per capita of $55,665, that is gaining advantage 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 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 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 80.8% of total governmental fund expenditures and 5.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 14.7% of expenditures and net direct debt that is 125.2% of total governmental fund revenue, as well as rapid amortization, with 74.3% 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 127,215, 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 83.2% of the national level and per capita market value of $55,665. Overall, the city's market value was stable over the past year at $7.1 billion in 2016. The county unemployment rate was 4.3% in 2015.

Topeka serves as both the seat of Shawnee County and the state capital. The city's broad and diverse economy anchors the Topeka MSA. Topeka's top four employers are the State of Kansas (an estimated 4,300 employees), health care provider Stormont-Vail Health Care (4,300), United School District No. 501 (2,500), and the St. Francis Hospital and Medical Center (1,700). As a result of economic development efforts and partnerships, management is optimistic that retail and commercial growth will continue to bolster the city's economic base. A recent $100 million investment by global foods manufacturer Mars Inc. and a new $20 million Federal Home Loan Bank development are the latest examples of the city's economic expansion. In addition, a $60 million mixed-use development that will include 102,000 square feet of retail as well as multifamily and office space is currently under construction. Continued growth in the service sector as well as expansion in manufacturing should allow income and wealth levels to increase over time and potentially lead to an improved economy, in our view. Topeka remains home to Payless ShoeSource, Hill's Pet Nutrition, Security Benefit Group, and Blue Cross and Blue Shield of Kansas.

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

Highlights include the city's historical trend analysis and use of independent sources for projecting budget revenue and expenditures. The city regularly monitors its budget performance and provides written budget-to-actual financial reports to the public. Funds are reviewed monthly and quarterly, with amendments according to parameters established by Kansas law. The city's five-year plan is reviewed annually and identifies both revenue and expenditures. 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, which include holdings and earnings, are prepared for the council monthly and reviewed quarterly. 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, as part of its long-term financial plan, Topeka aims to sustain reserves at 15% of general fund expenditures to protect against unanticipated expenditures. The city has been able to post available general fund reserves in excess of 15% of general fund expenditures for the past two fiscal years.

Strong budgetary performance
Topeka's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 0.7% of expenditures, and surplus results across all governmental funds of 3.1% in fiscal 2015.

The city utilizes a conservative forecast, and does not typically spend 100% of the budgeted amounts, which is what officials assume in their forecasts. Not surprisingly, the city's actual budgeted expenditures are roughly 3% to 5% lower than budgeted. On the revenue side, officials budget conservatively on sales tax revenue. During the past four years
the city has averaged approximately 2.2% annual sales tax increases. The fiscal 2016 budget included 1% general revenue growth and is currently up 3% through June 2016. We anticipate the city will outperform in fiscal 2016 and fiscal 2017.

**Very strong budgetary flexibility**

Topeka's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 22% of operating expenditures, or $18.9 million.

Officials closed fiscal 2015 with available general fund reserves of $19 million, or 22.5% of operations. They are projecting to end fiscal 2016 and fiscal 2017 with reserve levels in excess of 22% of operations and 24% of operations, respectively.

The city's ability to improve its budgetary flexibility to over 22% of operations coupled with its projected maintenance of available general fund reserve levels at that level is due to management's goal to restore reserve levels to 15% of operations by 2018, which it far exceeded.

Reduction of staff through attrition, reducing expenditures across all departments, and a property tax increase have been instrumental in allowing the city to reach its goal early and more importantly, in our view, to be in a position to maintain reserves with forecasts pointing toward continued improvement to slightly over 30% by 2021.

**Very strong liquidity**

In our opinion, Topeka's liquidity is very strong, with total government available cash at 80.8% of total governmental fund expenditures and 5.5x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

The city has demonstrated a consistent ability to tap the capital markets through routinely issuing both GO-supported debt as well as revenue-supported debt. Management anticipates that Topeka's cash position will remain stable. The city's investments are limited to pools and highly liquid instruments such as certificates of deposit, and Treasuries, as prescribed by Kansas law. The city has no variable-rate debt or swaps in its portfolio.

**Adequate debt and contingent liability profile**

In our view, Topeka's debt and contingent liability profile is adequate. Total governmental fund debt service is 14.7% of total governmental fund expenditures, and net direct debt is 125.2% of total governmental fund revenue. Approximately 74.3% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Officials report that 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. They have no current plans to issue additional GO debt in the near term.

Topeka's combined required pension and actual other postemployment benefits contributions totaled 7.2% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

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. It has historically contributed 100% in the past three fiscal years.
and does anticipate cost pressures.

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 positive outlook reflects our opinion the there is a one-in-three chance that we could raise the rating within the outlook's two-year period if Topeka's economy continues to expand, resulting in income levels that we consider good to strong while sustaining its very strong budgetary flexibility and adequate debt and contingent liability profile, all other factors being equal. Should the city's financial position weaken within our two-year outlook horizon reflected by decreases in reserves we could revise the outlook to stable.

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

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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.