

FITCH RATES OVERLAND PARK, KS \$25.5MM GO BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-30 October 2018: Fitch Ratings has assigned a 'AAA' rating to the following city of Overland Park, KS securities:

--\$25.5 million general obligation (GO) bonds, series 2018A.

Proceeds will be used to pay the costs of certain public buildings, street, stormwater, park, and other related improvements.

In addition, Fitch has affirmed the following ratings:

--The city's Issuer Default Rating (IDR) at 'AAA';

--Approximately \$86 million unlimited tax GO bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds are a general obligation of the city, payable from an ad valorem tax on all taxable property within the city without limitation as to rate or amount.

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO rating reflect the city's solid revenue and expenditure framework, low long-term liabilities, and ample reserve levels that contribute to an expectation that the city will maintain a high level of financial flexibility throughout the economic cycle.

Economic Resource Base

The city benefits from its location within the Kansas City metropolitan area, which features an extensive transportation network and well-educated workforce that help drive growth in population and the economy. The city is home to several Fortune 500 companies, with both the financial services and professional and business service sectors accounting for a greater percentage of total countywide employment than the national average.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Fitch expects the city's revenue to grow at a pace between national inflation and national GDP while maintaining substantial independent legal ability to raise revenue even after the implementation of a statewide property tax lid or cap in 2018.

Expenditure Framework: 'aa'

The city's expenditure growth is expected to grow at a rate in line with revenue growth. Expenditure flexibility is supported by moderate costs for servicing debt and other long-term liabilities, strong management control over labor costs, and consistent funding for capital from operating resources.

Long-Term Liability Burden: 'aaa'

Overland Park's long-term liability burden including pension liabilities and overall debt is low relative to personal income.

Operating Performance: 'aaa'

The city has the highest gap closing capacity and Fitch expects it to manage through an economic downturn. Management has built reserve levels through the current economic expansion.

RATING SENSITIVITIES

Efficient Financial Management: The rating is sensitive to the maintenance of financial flexibility sufficient to address periods of economic downturn.

Tax Lid Implementation: The rating is sensitive to the city's retention of substantial independent ability to increase revenues after implementation of the tax lid.

CREDIT PROFILE

Overland Park is an affluent community located 10-15 miles southwest of Kansas City, MO. Economic growth is evidenced by labor force and employment gains, steady sales tax growth and increases in the city's assessed valuation (AV). The city's unemployment rate is low.

Revenue Framework

Fitch expects the city's revenue growth to be solid given the vibrant tax base and diverse revenue stream. The city's sales tax makes up the largest source of revenue at 30% of 2017 general fund revenue with property tax at 27%. Other revenue sources include a countywide sales tax at 17% and a franchise tax on electric, telephone, gas service, and telecable services at 7% of revenue collectively.

Fitch expects the city's general fund revenue to continue to grow at a rate approximating historical trends, between the rates of national GDP growth and inflation, due to strong projected property tax growth and modest sales tax growth. AV grew 41% from 2010 through 2018 (based on preliminary valuations from the county appraiser). While the city does not expect growth to continue at such high levels in the long term, Fitch considers the city's projections of over 3% growth through 2020 and 3% growth after that to be reasonable. The city's sales and use tax has grown more moderately at 2.1% in fiscal 2017 and an estimated 1.9% in fiscal 2018.

The city should continue to have a substantial level of control over revenue increases even after the implementation of the tax lid, which limits the ability to increase property taxes to CPI growth. Growth in public safety expenditures and debt service are exempt from the law, which allows the city to retain capacity to adjust revenues for these key components of the general fund budget. The city also maintains some ability to adjust other locally controlled revenues.

Expenditure Framework

The city's main expenditure item is public safety at 40% of 2017 general fund expenditures and transfers. An additional 14% is for general government and 9% for public works.

The natural pace of spending growth should be in line with the pace of revenue growth given expectations for continued growth in population and moderate increases in the cost of service provision.

The city has a solid degree of flexibility with its main expenditure items. Employee wages and benefits are not contractually negotiated, providing the city with strong legal control over personnel related costs. Carrying costs are 16% of governmental expenditures and are expected to decline given the city's rapid repayment of existing debt and absence of future borrowing plans. Debt service declines from \$24 million in fiscal 2017 to under \$16 million by fiscal 2020 and is projected to continue to decline going forward.

Long-Term Liability Burden

Overland Park's long-term liabilities are low with the combined net pension liability and overall debt at only 5% of personal income in 2017. More than 88% of the city's current direct debt matures within 10 years and the city has limited future debt plans past the current issuance.

The long-term liability metric reflects the city's participation in four separate pension plans including the multiple-employer defined benefit pension plan administered by the state (the Kansas Public Employees Retirement System) and three separate single-employer plans for police, fire, and general employees. The city makes contractually-required contributions to the state plan that consistently fall short of the actuarially determined levels, and actuarially determined contributions to each of the single-employer plans. Fitch estimates the ratio of the fiduciary net position to total pension liability for all four pension plans at 73% assuming a 6% discount rate.

Operating Performance

The city has maintained a high level of available fund balance throughout the Great Recession and subsequent recovery relative to potential revenue declines depicted by the Fitch Analytical Sensitivity Tool (FAST) in a moderate economic downturn. Fitch expects that available general fund reserves (51% of expenditures in 2017 and no less than 29% of spending dating back to 2011) will remain above the 'aaa' reserve safety margin in a moderate recessionary period given the city's high degree of inherent budget flexibility.

The city had a surplus in 2017, adding almost \$11 million to available general fund balance. Management has budgeted conservatively through the recovery to maintain financial flexibility with no material deferral of required spending even with the tax lid implementation.

Contact:

Primary Analyst
Matthew Wong
Director
+1-212-908-0548
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Arlene Bohner
Senior Director
+1-212-908-0554

Committee Chairperson
Karen Krop
Senior Director
+1-212-908-0661

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)

<https://www.fitchratings.com/site/re/10024656>

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