

# RatingsDirect®

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## Summary:

# Overland Park, Kansas; General Obligation

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## Summary:

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### Credit Profile

US\$25.51 mil internal imp bnds ser 2018A dtd 12/05/2018 due 09/01/2038

*Long Term Rating*

AAA/Stable

New

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Overland Park, Kan.'s series 2018A internal improvement bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's previously issued general obligation (GO) debt. The outlook is stable.

The 'AAA' rating reflects the city's economic expansion, particularly in the property tax base, that is expected to fuel continued revenue growth, which affords the city significant flexibility to maintain balanced operating results without major changes in local tax rates. In addition, the city's conservative budgeting approach has resulted in considerable surplus revenues that support the pay-as-you-go funding strategy for capital projects, which historically has been used to supplement debt issuance.

Overland Park's full-faith-and-credit pledge, including an unlimited ad valorem tax levy on all taxable property, secures the GO bonds. Bond proceeds will be used to fund various capital improvements including streets, storm water, parks and recreation, and municipal facilities.

A portion of the city's debt outstanding is also payable in part from special assessments levied on property that benefited from improvements financed by the previously issued bonds. Because we lack sufficient information to rate the special assessment pledge, our rating on these obligations is based on the city's GO pledge.

Overland Park's GO bonds are eligible to be rated above the sovereign, because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013), the city has a predominately locally derived revenue source, with 25% of governmental fund revenue derived from sales taxes, and 21% from property taxes, with independent taxing authority and independent treasury management from the federal government.

The 'AAA' GO rating reflects our view of Overland Park's:

- Very strong economy, with 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 2017;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 59% of operating expenditures;
- Very strong liquidity, with total government available cash at 64.8% of total governmental fund expenditures and 6.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 9.8% of expenditures and net direct debt that is 51.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 73.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Overland Park's economy very strong. The city, with an estimated population of 195,140, is located in Johnson County in the Kansas City, MO-KS MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 149% of the national level and per capita market value of \$131,620. Overall, the city's market value grew by 6.6% over the past year to \$25.7 billion in 2018. The county unemployment rate was 3.0% in 2017.

Overland Park is approximately 10 miles southwest of downtown Kansas City. The city spans an area of 75 square miles is the state's second-largest city. Serving as an economic and employment hub within the broad and diverse Kansas City MSA, the local economy is largely based in telecommunications, education, health care, government, and retail. Despite a permanent resident population of 195,000, the estimated daytime population in Overland Park swells to nearly 254,000. Principal employers in fiscal 2017 included Sprint Corporation (whose world headquarters employed 6,000 individuals in the city), school districts Shawnee Mission (3,345) and Blue Valley (3,226), engineering service firm Black & Veatch (3,000), and Johnson County Community College (2,359).

Overland Park's AV has experienced steady growth in recent years in line with robust commercial and residential development, and city officials anticipate the continuation of this trend, with an assortment of projects currently in varying stages of development. Since tax year 2013, the city's AV increased at an average annual rate of 5.5%, and in aggregate the tax base expanded \$789 million or 30%. Continued residential, commercial, and business development has also aided the city in maintaining a very diverse taxpayer mix, with the 10 leading taxpayers comprising less than 10% of total AV. Overland Park's economy is very strong, and based on current trends including a growing project pipeline, we do not expect our view to weaken in the near term.

### **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.

Management uses conservative revenue and expenditure assumptions, analyzing over five years of historical trend data, and reviewing the budget at least semiannually. City officials provide semiannual budget to actual updates to the council, and revenue and expenditure reports are accessible to the public on demand via the city's online eCheckbook. Comprehensive long-term financial forecasting and capital planning incorporate meaningful assumptions developed through trend analysis on operations, and funding sources for projects and equipment outlays are identified in the city's formal capital improvement plan (CIP). The city further delineates ideal capital funding levels based on

pay-as-you-go financing compared to bond proceeds, maximum indebtedness levels, and debt service maturity schedules of 20 years or less. Furthermore, the city's debt management parameters are outlined in its CIP. The city adheres to a formal reserve policy, requiring the maintenance of a general fund balance equal to 30% of operating expenditures.

### **Strong budgetary performance**

Overland Park's budgetary performance is strong in our opinion. The city had operating surpluses of 7.4% of expenditures in the general fund and of 6.9% across all governmental funds in fiscal 2017.

In assessing the city's fiscal 2017 budgetary performance, we adjusted for recurring transfers out of the general fund, and for expenditures related to the refunding of the city's series 2009B bonds.

In line with recent historical performance trends, Overland Park's budgetary performance has fluctuated between strong and very strong performance metrics, primarily due to stable revenue growth and conservative budgeting practices. In fiscal 2017, the city's general fund surplus was due to both revenues and expenditures finishing with positive variance to budgeted values. It is our expectation that the city's budgeting practices will continue to support the maintenance of at least strong budgetary performance over the near term.

Overland Park's primary sources of general fund revenue in fiscal 2017 sales taxes (30%), property taxes (27%), and countywide sales tax (17%) representing the next largest sources -- all of which showed year-over-year increases in 2017.

Consistent with Kansas budget law, the city's adopted budget forecast a use of fund balance for fiscal 2018. Based on current trends, the city is projecting to end the year with at least balanced operating results. The fiscal 2019 adopted budget forecasts a similar use of fund balance. We note that the budgeted increase in general fund revenues for fiscal 2019 is 3.9% due to continued sales tax growth and additional property taxes driven by an estimated 6% increase in AV. Operating expenditures are expected to increase at the same pace as revenues due to continued investments in public safety as well as ongoing street maintenance and parks improvements.

### **Very strong budgetary flexibility**

Overland Park's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 59% of operating expenditures, or \$86.8 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Overland Park's available fund balance has been stable in recent years, consistently exceeding 50% of general fund expenditures, and providing substantial flexibility above the city's formal policy level of 30%. Fiscal 2018 budgetary results are expected to be relatively balanced with no material change in ending fund balances. In light of this, and in conjunction with our belief that management is committed to its formal fund-balance policy, we believe the city will continue to maintain very strong budgetary flexibility in the near term.

### **Very strong liquidity**

In our opinion, Overland Park's liquidity is very strong, with total government available cash at 64.8% of total governmental fund expenditures and 6.6x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

Overland Park's strong access to external liquidity is demonstrated by the city's historically frequent issuances of GO debt over the past decade. It has consistently maintained what we consider very strong cash balances, and we do not believe its cash position will materially weaken in the near term. Currently, all of Overland Park's investments comply with Kansas statutes as well as the city's own internal-investment policy. At fiscal year-end 2017, the city's investments were held in U.S. treasuries, U.S. government agency securities, and certificates of deposit, which we do not view as aggressive. In addition, the city has no exposure to contingent liabilities that could, in our opinion, pose a risk to liquidity.

### **Very strong debt and contingent liability profile**

In our view, Overland Park's debt and contingent liability profile is very strong. Total governmental fund debt service is 9.8% of total governmental fund expenditures, and net direct debt is 51.7% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, and approximately 73.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Included in our analysis of the city's direct debt is the Overland Park Development Corp.'s (OPDC) series 2007A first-tier refunding revenue bonds and series 2007B second-tier refunding revenue bonds. OPDC is considered a blended component unit of the city and facilitates the financing, construction, and ownership of the Sheraton Overland Park Hotel. Through a debt service support agreement, the city is obligated to apply only a portion of its transient guest tax revenue to help pay debt service on the OPDC revenue bonds. No other funds of the city are committed by this support agreement. Net of this self-supporting debt, the city will retire a stronger 85% of direct debt within 10 years. Within the next two years, we understand that the city intends to issue additional GO debt to supplement the pay-as-you-go financing of capital needs. Per the city's formal CIP, total debt issuances through 2020 are estimated at tentatively \$5.5 million, for infrastructure improvements.

Overland Park's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.4% of total governmental fund expenditures in 2017. Of that amount, 3.7% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The city made 99% of its annual required pension contribution in 2017.

The city participates in the Kansas Public Employees Retirement System, a cost-sharing, multi-employer defined benefit pension plan administered by the state. In addition, Overland Park provides police and fire personnel with retirement benefits through a Police Department Retirement Plan and a Fire Department Retirement Plan, both of which are single-employer defined benefit plans, and have been closed to new employees since 2011. Since that time, new police officers, firefighters, and emergency medical technicians participate in the Kansas Police and Firemen's Retirement System. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the city's net pension liabilities for its KPERS and fire plans were \$38.1 million (June 30, 2017, proportionate share) and \$2.8 million (Dec. 31, 2017), respectively. Overland Park's police department retirement plan reported a net pension asset of \$3.4 million as of Dec. 31, 2017. The plans were funded at 67%, 103%, and 94%, respectively, based on fiduciary net position as a percentage of the total pension liability. We note that the relatively low funded status of the KPERS plan could result in higher future costs; however, we believe the city has significant flexibility within its annual budget to absorb any meaningful cost increases relative to its pension obligations.

The city also provides defined contribution benefits through its Municipal Employees Pension Plan, and provides OPEB through a single-employer defined-benefit health care plan, which it finances on a pay-as-you-go basis with an additional amount contributed each year to prefund benefits. The city contributed \$1.48 million toward the OPEB plan in fiscal 2017. In addition, Overland Park had approximately \$7.5 million of assets committed for future OPEB benefits at fiscal year-end 2017. The funded status for the OPEB plan was 36.2%, as measured by the ratio of the fiduciary net position as a percentage of the total OPEB liability.

### 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 Overland Park will likely continue to benefit from its participation in the Kansas City MSA, allowing for continued tax-base growth and diversification. The outlook also reflects our expectation that the city will likely maintain its very strong budgetary flexibility and strong budgetary performance. We do not expect to change the rating during the two-year outlook period. We could lower the rating if the city were to experience multiyear financial deterioration, resulting in a material reduction of available reserves, coupled with an elevated debt profile, and weakening economic characteristics.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 1, 2018)		
Overland Pk GO		
Long Term Rating	AAA/Stable	Affirmed
Overland Pk GO		
Long Term Rating	AAA/Stable	Affirmed
Overland Pk GO		
Long Term Rating	AAA/Stable	Affirmed
Overland Pk GO		
Long Term Rating	AAA/Stable	Affirmed
Overland Pk GO		
Long Term Rating	AAA/Stable	Affirmed
Overland Pk GO		
Long Term Rating	AAA/Stable	Affirmed

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