S&P Global Ratings

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Summary:

Manhattan, Kansas; Appropriations; General Obligation

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Summary:

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Credit Profile		
US$2.065 mil GO Bnds ser 2016-B dtd 12/05/2016 due 11/01/2036		
Long Term Rating	AA/Stable	New
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Manhattan, Kan.'s series 2016B general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the city's existing GO debt.

S&P Global Ratings also affirmed its 'AA-' rating, with a stable outlook, on the city's series 2010 transportation development district (TDD) sales tax revenue bonds.

A half-cent sales tax limited to the TDD, which is coterminous with the north project area of a redevelopment district created by the city in 2005, secures the series 2010 bonds. The rating on the series 2010 bonds reflects a legal structure that includes Manhattan's agreement to budget and appropriate debt service payments throughout the bonds' term, which we view as the stronger pledge. Therefore, we applied our criteria for appropriation-backed obligations to the bonds, resulting in a rating one notch off the GO debt rating.

The city's full-faith-and-credit-and-resources pledge and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure the GO bonds. The city will also pay debt service partially from special assessments levied against properties that benefited from certain improvements. We rate the city's debt outstanding supported by special assessments based on the city's GO pledge.

Officials intend to use series 2016B bond proceeds to retire certain temporary notes previously issued to pay a portion of certain internal improvement costs.

The GO debt rating reflects our opinion of the following factors for the city, specifically its:

- Adequate economy, with projected per capita effective buying income at 74.9% of the national level and market value per capita of $65,922, that is gaining advantage from a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2015, which closed with an operating deficit in the general fund and a slight operating deficit at the total governmental fund level in fiscal 2015;

- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 of 7.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 71.1% of total governmental fund expenditures and 2.3x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges at 31.5% of expenditures and net direct debt that is 272.2% of total governmental fund revenue, but rapid amortization, with 83.2% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Manhattan's economy adequate. The city, with an estimated population of 56,308, is located in Pottawatomie and Riley counties. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 74.9% of the national level and per capita market value of $65,922. Overall, the city's market value grew by 1.3% over the past year to $3.7 billion in 2017. The weight-averaged unemployment rate of the counties was 3.3% in 2015.

Manhattan encompasses 18 square miles, approximately 56 miles west of Topeka. It is home to Kansas State University; in our view, the city benefits from the stabilizing presence of the university, which has a student enrollment of nearly 25,000. We believe Manhattan also benefits from its access to Fort Riley, 15 miles west of the city. The base supports a population estimate of 46,000, including 5,731 civilian employees; 23,000 family members; and 17,115 military personnel.

City officials note single-family and multifamily development continues due to growth at the university and Fort Riley. The city is now home to the National Bio & Agro-Defense Facility; the facility's construction began in mid-2015, and we understand it should begin operations in 2022. City officials expect continued assessed valuation growth of, at least, 3% per year for the next two fiscal years.

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.

Key practices include management's:

- Informal policy of budgeting for a $750,000 general fund cash reserve, the level of which is not tied to any specific need--Management works to sustain approximately $2 million in available reserves and it has adhered to this target historically;
- Revenue and expenditure assumptions based partially on five years of historical data and information from outside sources;
- Weekly monitoring of the budget with monthly updates to the city commission, including year-to-date comparisons to the budget;
- Forecasting five years out;
- Use of a five-year rolling capital improvement plan with identified funding sources;
- Investments that follow state guidelines and monthly performance reports to the commission; and
- Formal debt policy it reviews twice annually for compliance.

Strong budgetary performance

Manhattan's budgetary performance is strong in our opinion. The city had deficit operating results in the general fund of 1.9% of expenditures, and slight deficit results across all governmental funds of 0.8% of expenditures in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could improve from 2015 results in the near term.

We believe the city's budgetary performance will likely improve in fiscal 2016 compared to fiscal 2015's results, supported by our understanding that revenue is trending 3% higher than budgeted and expenditures are trending about 7% below budgeted expectations. Management expects performance across all governmental funds to be similar to that seen in fiscal 2015, which we find reasonable considering the city's historical performance across all governmental funds for the past three fiscal years.

Officials do not expect to release the fiscal 2017 final budget until Nov. 18, but officials do not foresee any budgetary pressure; they also expect finances to remain stable. In fiscal 2015, sales taxes generated 44% of general revenue and transfers and property taxes for general purposes generated 37%; both revenue streams have historically been fairly stable.

Adequate budgetary flexibility

Manhattan's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 of 7.1% of operating expenditures, or $1.9 million.

The city's percent of available fund balance to operating expenditures fell to, what we view as, the adequate range in fiscal 2015 due largely to revenue remaining fairly flat while expenditures increased. Management does not expect available fund balance to fall below $2 million in fiscal years 2016 and 2017, and it has indicated that revenue is trending about 3% higher than budgeted for fiscal 2016.

We expect budgetary flexibility to remain adequate over the next two fiscal years. Also adding to the city's budgetary flexibility is $7.4 million in the economic development fund, which we understand management could use for contingencies with the commission's approval; when combined with available general fund balance, this provides for 34% of expenditures.

Very strong liquidity

In our opinion, Manhattan's liquidity is very strong, with total government available cash at 71.1% of total governmental fund expenditures and 2.3x governmental debt service in 2015. In our view, the city has exceptional access to external liquidity if necessary.

Overall, we expect total government cash will remain very strong for the next two fiscal years. As of Sept. 30, 2016, the city held its limited investments in certificates of deposit and internal temporary notes. We do not view these investments as aggressive. We believe Manhattan has exceptional access to external liquidity because it has issued bonds frequently during the past 15 years, including GO, tax-increment financing, sales tax, and revenue bonds.

Weak debt and contingent liability profile

In our view, Manhattan's debt and contingent liability profile is weak. Total governmental fund debt service is 31.5% of total governmental fund expenditures, and net direct debt is 272.2% of total governmental fund revenue.

Approximately 83.2% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city is also issuing $5.6 million in GO temporary notes concurrently for certain internal improvements. We understand Manhattan plans to issue about $7 million of additional debt over the next two years for capital projects. We do not currently expect the additional debt to have a negative effect on the city's already weak debt profile. However, we would consider the profile very weak if carrying charges were to increase further or if amortization were extended such that officials retire less than 65% of principal within 10 years. The city's overall net debt was 8.2% of market value.

Manhattan's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 3% of total governmental fund expenditures in fiscal 2015. The city made its full annual required pension contribution in fiscal 2015.

Manhattan participates in the Kansas Public Employees' Retirement System and the Kansas Police & Firemen's Retirement System, which are cost-sharing, multiemployer, defined-benefit, state-administered pension plans. Kansas determines contribution rates annually based on the results of an annual actuarial valuation. As of June 30, 2015, the plans' fiduciary net position as a percent of total pension liability was 65%. Manhattan has historically contributed 100% of the annual required contribution to the plans. It funds OPEB through pay-as-you-go financing.

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 S&P Global Ratings' opinion that it will likely not change the rating over the two-year outlook period. We expect Manhattan to continue its role as the area's regional economic center and maintain its very strong management.

Upside scenario

With all other analytical areas remaining unchanged, we could raise the rating if income and market value per capita were to improve to levels we consider strong; if available reserves were to improve to, and be sustained at, what we consider, very strong levels; and if the debt profile were to improve to, what we consider, adequate levels.

Downside scenario

We could lower the rating if weak budgetary performance were to diminish available fund balance to levels we view as weak without any plans in place to correct the structural imbalance.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

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- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of November 11, 2016)		
Manhattan go bnds ser 2012-B dtd 12/01/2012 due 11/01/2013-2027 2032		
Long Term Rating	AA/Stable	Affirmed
Manhattan go bnds ser 2013-A dtd 12/01/2013 due 11/01/2014-2027 2029 2031 2033		
Long Term Rating	AA/Stable	Affirmed
Manhattan go bnds ser 2014-C dtd 12/08/2014 due 11/01/2015-2026 2028-2034		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO bnds		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO bnds ser 2012-A dtd 06/01/2012 due 11/01/2013-2024 2026 2028 2030 2032		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO rfdg and imp bnds ser 2015-A dtd 12/07/2015 due 11/01/2035		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO rfdg bnds ser 2012-C dtd 12/20/2012 due 11/01/2026		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO rfdg bnds ser 2015-B due 11/01/2027		
Long Term Rating	AA/Stable	Affirmed
Manhattan approp		
Long Term Rating	AA-/Stable	Affirmed

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