MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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City of Manhattan, KS

New Issue: Moody's Assigns Aa2 to Manhattan, KS's GO Bonds & Temp Notes

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the city of Manhattan, KS's $2.1 million General Obligation Bonds, Series 2016-B and the $5.6 million General Obligation Temporary Notes, Series 2016-04. Concurrently, Moody's maintains a Aa2 rating on the city's outstanding general obligation bonds and notes, which total $102.2 million and $68 million post-sale, respectively.

The Aa2 rating reflects the city's stable economy anchored by the presence of two significant institutions: Fort Riley and Kansas State University (Aa2 negative), satisfactory financial operations supported by adequate reserve levels and unlimited levy raising flexibility for debt service. The rating also considers the city's elevated debt burden, somewhat mitigated by support from non-levy sources and manageable pension liabilities.

Credit Strengths

» Institutional presence of Fort Riley and Kansas State University provides employment stability

» Outside liquidity available if necessary

» Strong economic growth bringing about tax base and revenue growth

Credit Challenges

» Narrowed General Fund balance below rated peers

» Elevated debt burden partially tempered from support of non-levy revenue sources

» Dependence on economically sensitive sales tax revenues

Rating Outlook

Outlooks are generally not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Sustained and significant improvement in General Fund reserves

» Substantial growth in the city's tax base or improvement in wealth indicators

» Material reduction in debt levels relative to the tax base

Factors that Could Lead to a Downgrade

» Sustained reduction in reserve levels relative to the size of the budget

» Increases to an already high debt burden

Key Indicators

Exhibit 1

Manhattan (City of) KS	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 3,119,327	$ 3,207,491	$ 3,303,316	$ 3,398,623	$ 3,518,962
Full Value Per Capita	$ 60,527	$ 60,532	$ 61,080	$ 61,668	$ 62,495
Median Family Income (% of US Median)	100.1%	103.7%	103.9%	106.5%	106.5%
Finances					
Operating Revenue ($000)	$ 54,383	$ 58,693	$ 60,384	$ 62,219	$ 63,846
Fund Balance as a % of Revenues	26.1%	28.9%	37.8%	33.5%	26.9%
Cash Balance as a % of Revenues	28.5%	38.2%	36.1%	33.3%	41.3%
Debt/Pensions					
Net Direct Debt ($000)	$ 218,749	$ 218,515	$ 207,128	$ 210,872	$ 225,962
Net Direct Debt / Operating Revenues (x)	4.0x	3.7x	3.4x	3.4x	3.5x
Net Direct Debt / Full Value (%)	7.0%	6.8%	6.3%	6.2%	6.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.6x	0.7x	0.8x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.1%	1.4%	1.5%	1.4%

Operating revenues as presented include the General Fund, Debt Service Fund, Riley County Police Fund, and the TIF and TDD funds
Source: Moody's Investors Service, city audited financial reports

Recent Developments

Kansas cities and counties are not presently subject to property tax limits, however, property tax lid legislation originally passed in 2015 and amended in 2016 stipulates that an increase in property tax dollars levied beyond the rate of inflation will require voter approval. The 2016 amendment moved the date of implementation to January 2017 (affecting fiscal 2018 budgets), changed the inflation benchmark to a five year average, and added important exemptions like public safety expenses and lease revenue bonds issued prior to July 1, 2016. The amended legislation continues to allow GO bonds to be exempt from property tax limits. Given the broadness of the exemptions included, we do not believe the lid will present significant financial or operational challenges for the city. In anticipation of the cap, and given the city is growing rapidly, the mill levy was increased by 3 mills for fiscal 2016, and likely 1 mill for fiscal 2017. Additionally, in November 2016 voters approved a 2/10 cent city sales tax to be levied over a ten year period to pay for road improvements. The city projects approximately $2 million in receipts from the expanded sales tax. Further information on the city's finances are discussed herein.

Detailed Rating Considerations

Economy and Tax Base: Modestly Growing Tax Base; Regional Economic Center

The city of Manhattan will continue to benefit from population and tax base growth. The regional economy benefits from the presence of significant institutions, such as KSU and Fort Riley, one of the nation's largest army posts. Located 56 miles west of Topeka (Aa3), the city of Manhattan serves as the county seat for Riley County (Aa2) and functions as a regional retail hub. The city's sizeable $3.7 billion tax base grew at an average annual rate of 3.3% from fiscal years 2011 to 2016, most recently growing 4.1% for fiscal 2016. Based on estimates for fiscal 2017, the tax base will exhibit further modest growth. The full value tax base number do not include approximately $1.4 billion in value associated with tax increment financing districts, which support associated TIF debt, as described below. All in, the city's footprint represents over $5 billion in full market value. Officials attribute the growth to continued development throughout the city and expect tax base growth to continue in the long term as a result of the completion of projects in the downtown area and the relocation of the Kansas Department of Agriculture to Manhattan, as well as ongoing projects related to Kansas State University and the Federal Department of Homeland Security's National Bio and Agro-Defense Facility (NBAF). The tax base exhibits modest concentration with the top ten taxpayers accounting for 10.5% of fiscal 2016 assessed value.

With the economic stability stemming from KSU and Fort Riley and continued employment base expansion, the city's population continues to grow annually. Currently, the city's population is approximately 56,308, which is up nearly 8% since the 2010 census. Unemployment as of April 2016 was a tight 2.4%, below the state level of 3.4% and the national level of 4.7%.

Financial Operations and Reserves: Stable Finances Expected Over Near Term

The city's finances will remain stable over the near term supported by local economic stability stemming from Fort Riley and KSU, increasing sales tax revenues, both from organic growth and the passage of a 2/10 cent additional sales tax, and solid fiscal management. While it is expected that the General Fund balance will remain narrow relative to the budget, it is expected to be stable and bolstered by outside liquidity in economic development and sales tax funds that can be transferred back if necessary.

Over the past five years, the city has posted offsetting General Fund surpluses and deficits, most recently ending fiscal 2015 with an expected deficit of $464,000, bring the available fund balance to $1.9 million or a narrow 7.7% of General Fund revenues. The primary source of the draw on reserves was application of funds to capital improvements, although revenues increased less than budgeted. Moody's considers the city's total operating reserves to include the General Fund, the Riley County Police Fund ("Police Fund") , the Debt Service Fund, as well as the various TDD and TIF funds primarily due to the moral obligation pledge of the city. In aggregate the combined funds included an available balance of $17.2 million, or a healthy 26.9% of operating funds revenues. In addition to the primary operating reserves, the city maintains outside liquidity available for operations if necessary. Officials report that the economic development fund, with a balance of $7.3 million as of fiscal 2015, can be transferred to the General Fund. The city previously held $1.9 million in a Capital Improvement Reserve that was applied to city hall projects in lieu of debt issuance. Other outside liquidity includes sales tax funds, which maintained a total balance of $1.4 million as of fiscal 2015.

Based on year to date 2016 results, the city expects balanced operations which is supported by a 3 mill property tax levy increase. The fiscal 2017 budget includes a 1 mill levy increase to support growing operations, and maintenance of reserves. The city's ability to avoid further liquidity declines will be a focal point of future credit reviews.

Like many Kansas municipalities, sales tax revenues are one of the city's largest income sources at approximately 37% of fiscal 2015 governmental revenues. In addition to the 2/10 cent sales tax recently passed, the city has a local 1% sales tax, half of which flows to the General Fund, and half of which flows into a Sales Tax Special Revenue Fund which can then be transferred into any property tax supported fund. The city also receives about 61% of a countywide sales tax, which was recently renewed by voters through 2022. This sales tax is allocated to the Economic Development Fund (65%) and to the city's Bond and Interest Fund (35%). Sales tax revenues have grown at a modest rate,and with the growth in the local economy, the city expects a similar trend over the near term.

LIQUIDITY

The city does not have a minimum General Fund balance policy but has an informal goal of keeping between $2.5 million and $4 million of cash on hand. The city's General Fund cash position was $3.1 million or 11.7% of fiscal 2015 General Fund revenues. Inclusive of all operating funds Moody's includes for the city, cash was $26.4 million or 41.3% of operating revenues.

Debt and Pensions: Elevated Debt Burden Offset by Non-Levy Sources

At 6.2% of fiscal 2016 full value, the city's debt burden is elevated. Approximately half of the city's $102 million in outstanding GO debt post-sale is associated with special assessments, and the city reports no delinquency concerns among districts. The debt burden also includes $68 million in GO Temporary Notes which are typically issued with four year maturities and are taken out with long term debt. In addition to general obligation debt, the city's debt burden includes a moral obligation appropriation pledge for special obligation bonds and sales tax revenue bonds (STAR), which are supported by sales tax and tax increment revenues. The city issued four such series of bonds in 2009, and approximately $57 million remains outstanding in aggregate. Dedicated revenues have been sufficient to pay debt service, precluding the need for the city to make any general appropriations. The city maintains a voter approved 0.25% sales tax to support debt service for the city's general obligation Quality of Life projects, which include zoo and pool maintenance and improvement projects.

The city has a formal debt management policy that restricts the city from issuing more general obligation bonds than retires each year. The city has preliminary plans to issue general obligation bonds or notes quarterly for various capital projects. The city typically retires 3-4 year temporary notes four times per year and has historically had multiple bids on take-out financings, a trend we expect to continue. Future credit reviews will continue to focus on the city's ability to manage its elevated debt burden.

The Series 2016-04 notes will mature December 15, 2020 and will be callable starting June 15, 2017, although the city does not expect to retire the notes at the first optional call date.

DEBT STRUCTURE

All of the city's debt is fixed rate. The city utilizes short-term debt to provide interim financing and currently has $68 million of temporary notes outstanding, inclusive of the current sale, or about 40% of total general obligation debt. Principal amortization of the city's debt is average, with 74% retired within ten years.

DEBT-RELATED DERIVATIVES

The city is not a party to any derivative agreements.

PENSIONS AND OPEB

Manhattan has a manageable level of exposure to two statewide cost-sharing pension plans, the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Fireman's Retirement System (KP&F). There is a dedicated levy to finance the city's portion of shared countywide police expenses, which tempers the KP&F responsibility. Both plans are administered under KPERS, and the city has consistently made its required contributions to both plans in accordance with statutory requirements. Total fiscal 2015 city pension contributions amounted to $2.3 million or a low 3.4% of 2015 operating revenues. Moody's three year average (fiscal 2013-2015) adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $50.9 million, or 0.8 times operating revenues, including the General Fund, Debt Service Funds, and Riley County Police Fund. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace Manhattan's reported liability, but to improve comparability with other rated entities. We determined the city's share of liability for the cost-sharing plans administered under KPERS in proportion to its contributions to the plan. We expect that the city will adequately incorporate rising pension costs into its budget while maintaining balanced operations.

Management and Governance

Kansas cities have an institutional framework score of "Aa," or strong. Cities primarily rely on property tax and local option sales tax revenues, which in combination are moderately predictable. Presently, cities enjoy an unlimited property tax levying ability. Affecting budgets starting in 2018, new legislation will limit property tax revenue increases without voter approval, resulting in a moderate revenue-raising ability. Expenditures are highly predictable and cities have a strong legal ability to reduce major expenditures given that cities are generally not subject to collective bargaining and typically have modest fixed costs.

Legal Security

The bonds and notes are secured by the city's general obligation unlimited tax pledge in which the full faith, credit and resources of the city are pledged and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount. The city intends to pay a portion of the notes with special assessments.

Use of Proceeds

Proceeds of the bonds will take out a portion of outstanding notes originally issued to fund infrastructure projects. Proceeds of the notes will fund various public infrastructure improvements in the city including water, general city and special assessments.

Obligor Profile

Located 56 miles west of Topeka, the city of Manhattan serves as the county seat for Riley County and functions as a regional retail hub. The city is home to Kansas State University and Fort Riley. The current population is approximately 56,308.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Manhattan (City of) KS

Issue	Rating
General Obligation Bonds, Series 2016-B	Aa2
Rating Type	Underlying LT
Sale Amount	$2,065,000
Expected Sale Date	11/14/2016
Rating Description	General Obligation
General Obligation Temporary Notes, Series 2016-04	Aa2
Rating Type	Underlying LT
Sale Amount	$5,610,000
Expected Sale Date	11/14/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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