S&P Global
Ratings

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Summary:

Manhattan, Kansas; Appropriations; General Obligation

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Credit Profile		
US$13.12 mil GO bnds ser 2019-A dtd 06/14/2019 due 11/01/2039		
Long Term Rating	AA/Stable	New
US$3.72 mil taxable GO bnds ser 2019-B dtd 06/14/2019 due 11/01/2034		
Long Term Rating	AA/Stable	New
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed
Manhattan approp		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating to Manhattan, Kan.'s series 2019-A and taxable series 2019-B general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's existing GO debt. The outlook is stable.

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

Security

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 has numerous series of GO debt, including the series 2019-A bonds, secured by special assessments levied against properties that benefited from certain improvements. We rate the special assessments-supported debt outstanding based on the city's GO pledge.

Officials intend to use series 2019-A and 2019-B bond proceeds, in part, to finance infrastructure projects throughout the city.

A half-cent sales tax limited to the transportation development district--coterminous with the north project area of a redevelopment district created by the city in 2005--secures the series 2010 bonds. Per our multiple revenue streams criteria, we rate to the stronger of the two pledges, which is the city's agreement to seek appropriation from legally available funds. Based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018), we rate this security one notch below the general creditworthiness rating to capture the appropriation risk.

Credit overview

Manhattan's credit quality remains stable despite some signs of softening in economically sensitive revenue streams and trends in new construction that have slowed in comparison with prior years. Overall, the city's general and governmental funds are structurally balanced and we expect total available reserves in the operating fund to remain adequate to strong. We believe additional funds in the health care fund, economic development fund, and utility fund are available to further support the city's overall financial health should a contingency arise. While the debt and contingent liability profile is weak and Manhattan issues debt annually, the city has historically not issued more debt than it retires in the same year.

The rating reflects our view of the city's:

- Adequate economy, with market value per capita of $73,246 and projected per capita effective buying income at 83.6%, but that is benefiting 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 2017, which closed with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2017 of 4.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 36.1% of total governmental fund expenditures and 102.5% of governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability profile, with debt service carrying charges at 35.2% of expenditures and net direct debt that is 230.7% of total governmental fund revenue, but rapid amortization, with 81.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Manhattan's economy adequate. The city, with an estimated population of 55,427, 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 83.6% of the national level and per capita market value of $73,246. Overall, the city's market value grew by 2.2% over the past year to $4.1 billion in 2019. The weight-averaged unemployment rate of the counties was 2.9% in 2018.

Manhattan is home to and benefits from the stabilizing institutional presence of Kansas State University, which has an enrollment of almost 25,000. The city also benefits from its access to Fort Riley, a U.S. Army installation with an estimated total population, including off-post dependents, employees, retirees, and veterans, of 68,000, which is 15 miles west. The city's top 10 taxpayers represent about 9.0% of the total tax base and include a utility, several retail outlets, shopping centers, a medical complex, and a hotel. Significant employers in the area include Fort Riley (15,009 military and 5,625 civilian employees), Kansas State University (5,865), and Manhattan-Ogden Unified School District (1,895).

Officials note single- and multifamily developments continue 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. Construction of the facility should be complete in 2022 and it should be fully commissioned for operations in 2024. New construction has slowed in comparison with prior years; however, due to the stability of existing businesses and development underway, officials expect about 2% annual assessed valuation growth.

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 financial management practices include revenue and expenditure assumptions based partially on five years of historical data and information from outside sources. Management monitors the budget routinely, and provides monthly updates to the city commission, including year-to-date budget comparisons. Management conducts five-year forecasting of major revenue and expenditure items and includes assumed increases in costs such as salaries. A five-year, rolling capital improvement plan is formal and identifies funding sources for future projects. The city maintains a formal investment policy that follows state guidelines, with monthly performance reports presented to the commission. Manhattan maintains a formal debt policy and officials routinely review it to ensure the debt profile is in compliance with quantitative metrics. Management has an informal policy of budgeting for a $750,000 general fund cash reserve, which is not tied to any specific need. Management works to sustain approximately $2 million in available reserves, and has historically adhered to this target.

Strong budgetary performance

Manhattan's budgetary performance is strong, in our opinion. The city had slight deficit operating results in the general fund of 1.3% of expenditures, but a surplus result across all governmental funds of 3.0% in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could improve from 2017 results in the near term.

We believe the city's budgetary performance will remain at least strong during the next two years. We have adjusted for recurring transfers, one-time capital expenditures, and takeout of temporary notes with long-term GO bonds. In fiscal 2017, sales taxes generated 45% of general revenue, while transfers and property taxes for general purposes generated 33%. The city experienced a slowdown in growth in sales tax, franchise fees, municipal court, state gasoline refunds, and special alcohol revenues. Overall, actual general fund revenues came in $898,000 below budget and expenditures trended $2 million below budgeted assumptions.

For fiscal 2018, unaudited actual financials reflect a $1.38 million, or about 4.6%, operating surplus despite property, sales, court fines, and permit revenues trending below budget assumptions. This was due, in part, to conservative estimates on expenditures.

Manhattan adopted a balanced budget for fiscal 2019 and assumes a 20% decline in municipal court fees, 4% decrease in franchise fees, and 1% decline in sales tax compared with 2018 collections. The city implemented an overall millage rate increase to 49.355 mills for 2019 from 48.357 mills in 2018. In November 2019, the city plans to seek constituents' approval for a three-tenths-of-a-percent sales tax, estimated to generate about $3.3 million per year, to dedicate to pay-as-you-go public facility projects or debt service. We expect performance across all governmental funds over the next two years to be consistent with the city's historical performance.

Adequate budgetary flexibility

Manhattan's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2017 of 4.4% of operating expenditures, or $1.2 million.

We have adjusted the city's available fund balance to include the capital and equipment reserve funds. For fiscal years 2018 and 2019, we expect the available fund balance to remain relatively stable and at least adequate during the next two years.

We also understand Manhattan has additional money in its health care fund ($1.51 million) and economic development fund ($8.24 million) that it can use for contingencies, if needed, in addition to transferring money from its enterprise funds ($108.02 million).

Very strong liquidity

In our opinion, Manhattan's liquidity is very strong, with total government available cash at 36.1% of total governmental fund expenditures and 102.5% of governmental debt service in 2017. In our view, the city has exceptional access to external liquidity if necessary.

We have adjusted total governmental funds debt service to exclude takeout of temporary notes with long-term GO bonds. Overall, we expect total government cash will likely remain very strong for the next two fiscal years. We do not view the city's investments as aggressive, given the majority is in certificates of deposit and internal temporary notes, along with regular account balances. 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. The city does not have any exposure to contingent liabilities, variable-rate debt, or swaps.

Weak debt and contingent liability profile

In our view, Manhattan's debt and contingent liability profile is weak. Total governmental fund debt service is 35.2% of total governmental fund expenditures, and net direct debt is 230.7% of total governmental fund revenue. Approximately 81.5% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

We believe Manhattan's debt profile will likely remain weak during the next two years. The city plans to issue $16.3 million in bonds and $23.33 million in temporary notes through 2021. However, given the rapid amortization of existing debt, we do not anticipate a significant increase in the overall debt profile. We would consider the profile very weak if future issuances for new-money debt were to result in carrying charges increasing, or if amortization were extended such that officials retire less than 65% of principal within 10 years.

Manhattan's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.6% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution in 2017.

Manhattan participates in the Kansas Public Employees' Retirement System (KPERS) and the Kansas Police & Firemen's Retirement System, which are cost-sharing, multiple-employer, defined-benefit, state-administered pension plans. Kansas determines contribution rates based on an annual actuarial valuation. As of June 30, 2017, KPERS' fiduciary net position as a percent of total pension liability was 67.1% for the local government portion of KPERS.

What we consider the city's strong budgetary flexibility, manageable pension contribution compared with expenditures, and very strong management somewhat offset our opinion of the plans' relatively low funded ratio because we believe officials will likely make the necessary budgetary adjustments to handle contribution rate increases the state could impose. Manhattan has historically paid 100% of the annual required contribution to the plans. It funds OPEB through pay-as-you-go financing from the health care fund. The OPEB net obligation amounted to $1.7 million during fiscal 2017.

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

We expect Manhattan to continue to be the area's regional economic center and maintain its very strong management and liquidity positions. We believe the city's very strong management practices and policies, and its capacity to manage shifts in economically sensitive revenues will continue to support its overall fiscal health. The stable outlook reflects S&P Global Ratings' opinion that it will likely not change the rating over the two-year outlook period.

Downside scenario

We could lower the rating if weak budgetary performance were to diminish available fund balance to levels we view as weak, or if additional debt issuance increases carrying charges, or extends the amortization schedule, resulting in less than 65% of principal being retired within 10 years.

Upside scenario

We could raise the rating if income and market value per capita were to improve to levels comparable with those of the city's higher-rated peers; if available reserves were to improve to, and be sustained at, what we consider very strong levels; or if the city's high debt profile moderates to adequate levels.

Related Research

- 2018 Update Of Institutional Framework For U.S. Local Governments
- 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

Ratings Detail (As Of June 3, 2019)		
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of June 3, 2019) (cont.)		
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed
Manhattan GO		
Long Term Rating	AA/Stable	Affirmed

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.