

# RatingsDirect®

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## Summary:

# Bonner Springs, Kansas; General Obligation; Note

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### Credit Profile

US\$7.93 mil GO bnds ser 2020-A dtd 03/28/2020 due 09/01/2040		
<i>Long Term Rating</i>	AA/Stable	New
US\$1.73 mil GO temp nts ser 2020-1 dtd 03/26/2020 due 04/01/2021		
<i>Short Term Rating</i>	SP-1+	New
Bonner Springs GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Bonner Springs GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Bonner Springs GO bnds		
<i>Long Term Rating</i>	AA/Stable	Upgraded

## Rationale

S&P Global Ratings raised its rating on Bonner Springs, Kan.'s general obligation (GO) debt by one notch to 'AA' from 'AA-', based on improving economic indicators and the maintenance of very strong reserves. At the same time, we assigned our 'AA' rating to the city's series 2020-A GO bonds. The outlook is stable.

In addition, S&P Global Ratings assigned its 'SP-1+' short-term rating to the city's series 2020-1 GO temporary notes.

### Security and use of proceeds

The city's GO bonds are direct obligations of the city, secured by its full faith, credit, and resources pledge, and are payable from unlimited ad valorem taxes levied on all property within the city.

The short-term rating reflects our view of the city's 'AA' rating and low market-risk profile, including the authority to issue take-out debt and availability of pertinent disclosure information. State law requires the authorization of long-term take-out GO debt before the issuance of temporary notes. The temporary notes are a GO of the city, secured by its full-faith-credit-and-resources pledge. In addition, the notes are partially payable from special-assessment taxes levied on improvements financed with note proceeds or, if not, ad valorem taxes levied without limitation as to rate or amount on all taxable, tangible, real and personal property within the city's territorial limits.

We understand proceeds from the series 2020-A bonds and series 2020-1 temporary notes will finance construction of a new police building and renovate the existing city hall building.

### Credit overview

The rating reflects Bonner Springs' stable and growing economy, which benefits from its proximity to the Kansas City metropolitan statistical area (MSA) and its location along Interstate 70. The city's local economy is fairly diversified and has a mix of residential, industrial, and commercial components, which sets it apart from other nearby bedroom

communities. We believe the city's strong management has played an important part in ensuring fiscal stability, while addressing both capital and economic growth.

The rating reflects our opinion of the city's:

- Adequate economy, with market value per capita of \$77,420 and projected per capita effective buying income (EBI) at 77.0%, but which is benefiting from access to a broad and diverse MSA;
- Strong management, with good 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 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 83% of operating expenditures;
- Very strong liquidity, with total government available cash at 117.9% of total governmental fund expenditures and 9.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 12.5% of expenditures and net direct debt that is 158.9% of total governmental fund revenue; and
- Strong institutional framework score.

### **Adequate economy**

We consider Bonner Springs' economy adequate. The city, with an estimated population of 7,949, is located in Leavenworth and Wyandotte counties in the Kansas City, MO-KS MSA, which we consider to be broad and diverse. The city has a projected per capita EBI of 77.0% of the national level and per capita market value of \$77,420. Overall, the city's market value grew by 5.2% over the past year, to \$615.4 million in 2020. The weighted-average unemployment rate of the counties was 4.8% in 2018.

Bonner Springs is approximately 20 miles west of downtown Kansas City. The local economy is centered on commercial, industrial, and agricultural-related products, including production of concrete and cement and steel fabrication. The city's tax base is diverse, with the top 10 taxpayers making up 14.6% of total assessed value (AV) in fiscal 2019. The city's leading employers include: Unified School District No. 204 (365 employees), CMS Bakery Products (210), and Super Walmart (146). Residents have access to the Kansas Speedway, which can accommodate up to 82,000 spectators. Hollywood Casino features a 100,000 square-foot gaming floor as well as a hotel, restaurant, and clubs. Through an inter-local agreement with Kansas City, Bonner Springs will receive an estimated \$600,000 to \$700,000 a year in revenue from the casino. In addition, officials state that as many as 500,000 visitors come to the city for events at the Providence Medical Center Amphitheater, as well as for soccer games and an annual renaissance festival.

The city's AV grew approximately 20% between fiscal years 2015 and 2020, or nearly 4% annually on average. Management is projecting similar growth over the next few years as residential and commercial development is expected to continue. Recent projects include ongoing mixed-use developments, existing business expansion, and a 200-unit single-family development. Driving the city's growth are its proximity to downtown Kansas City and its location along Interstate 70.

### **Strong management**

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

When developing its budget, management evaluates three years of historical data and uses conservative assumptions for revenue and expenditure projections. The city also incorporates data from outside sources such as Wichita State University and the State Department of Commerce for economic outlooks and the Kansas League of Municipalities for legislative updates. The budget can be amended as needed throughout the fiscal year, and management provides quarterly budget-to-actual reports to council. The city has an investment policy and provides quarterly investment reporting to council. The city has a formal reserve policy of maintaining an available general fund balance equal to at least 3% of the adopted budget, which it has typically greatly exceeded. The city uses a five-year capital improvement plan that is updated annually and identifies projects, costs, and funding sources. The city follows state guidelines that require overall debt to be less than 30% of AV. The city does not have a long-term financial plan that includes multi-year projections of revenues and expenditures.

### **Strong budgetary performance**

Bonner Springs' budgetary performance is strong, in our opinion. The city had operating surpluses of 19% of expenditures in the general fund and of 7.2% across all governmental funds in fiscal 2018. We do not expect surplus operating results to be sustainable above 5%; as a result, we believe budgetary performance in the near term could deteriorate somewhat from fiscal 2018 results.

Bonner Springs has a track record of outperforming budget, as management typically conservatively estimates revenue growth, budgeting expenditures at full employment and including contingencies that do not usually materialize. Our ratios have been adjusted for what we view as recurring transfers, in addition to capital spending funded with debt. In fiscal 2018, sales and use tax accounted for 47% of general revenues, followed by property tax levied for general purposes at 20%. Both revenue streams have historically been relatively reliable for the city.

For unaudited fiscal 2019, we estimate expenditures exceeded revenues by \$469,000 after transfers, or a general fund deficit of 6%. The operating deficit was partially the result of officials establishing a capital improvement fund and an equipment reserve fund in fiscal 2019 and transferring \$1.8 million from the general fund to those funds in order to cash-fund non-recurring capital and equipment needs. Management also established a five-year capital improvement plan incorporating both of these funds. For fiscal 2020, the budget includes additional transfers to the capital improvement and equipment reserve funds, but we expect near break-even operations by year-end as a result of the city's conservative budgetary practices. Thus, we expect the city's budgetary performance will remain strong over the next two years.

### **Very strong budgetary flexibility**

Bonner Springs' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 83% of operating expenditures, or \$6.2 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.

The city has consistently maintained very strong reserves in each of the past three audited fiscal years of between \$3.9

million and \$6.2 million, or between 56% and 83% of general fund expenditures. The city's formal reserve policy requires maintenance of available fund balance of at least 3% of budgeted expenditures, which the city typically exceeds significantly. Management previously had an internal reserve target of maintaining fund balance above 40% of expenditures. However, with the establishment of the two new reserve funds for capital improvement and equipment, we expect general fund reserves will likely stabilize as officials make annual transfers from the general fund to the capital improvement and equipment reserve funds to support the city's capital needs. We consider these funds to be available reserves, as we understand the city can transfer these funds back to the general fund for contingency, if needed. For unaudited fiscal 2019, we estimate available reserves, which include general fund and non-general fund reserves, will be 93% of estimated expenditures. We expect the city's budgetary flexibility will remain very strong over the next few years.

### **Very strong liquidity**

In our opinion, Bonner Springs' liquidity is very strong, with total government available cash at 117.9% of total governmental fund expenditures and 9.5x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity, if necessary.

The city has demonstrated access to external liquidity through its issuance of GO and enterprise debt over the past 20 years. The city's cash is mainly in checking accounts, certificates of deposit, and money market accounts, which we do not consider aggressive. The city does not have any privately placed debt or contingent liabilities at this time; therefore, we do not expect the city's cash position to deteriorate over the next few years.

### **Weak debt and contingent liability profile**

In our view, Bonner Springs' debt and contingent liability profile is weak. Total governmental fund debt service is 12.5% of total governmental fund expenditures and net direct debt is 158.9% of total governmental fund revenue.

The city has about \$27 million in direct debt outstanding, of which we estimate \$6.5 million is supported by utility revenues. Officials do not plan to issue additional debt during the next two years.

Bonner Springs' combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.2% of total governmental fund expenditures in fiscal 2018. The city made its full annual required pension contribution in fiscal 2018.

We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate credit pressure because required contributions currently make up a small portion of total governmental expenditures. If required material contributions were to increase unexpectedly during the next few fiscal years, we believe this would not have an effect on fiscal stability, as there are sizable reserves officials could use for contingencies, if needed.

As of June 30, 2018, the latest measurement date, Bonner Springs participates in the Kansas Public Employees' Retirement System (KPERs), which is 68.9% funded with a net pension liability equal to \$4.8 million. The state actuarially determines contributions, and the city has historically funded annual required costs in full.

Actuarial assumptions include a discount rate of 7.75%, which we view as aggressive, representing market risk and resulting in contribution volatility if the plan fails to meet assumed investment targets. In addition, contributions are likely to grow as a result of level payroll funding rather than level-dollar contributions, which would result in consistent

payments.

The city also provides other postemployment benefits in the form of continued health care coverage for retirees. The OPEB plan is funded on a pay-as-you-go basis, and the city's contribution to the plan was \$15,000 in fiscal 2018.

### 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 Bonner Springs will maintain its very strong reserves and strong budgetary performance, supported by strong management. Additional rating stability is provided by the city's participation in the broad and diverse Kansas City, MO-KS MSA. Therefore, we do not expect to change the rating within the two-year period.

### Upside scenario

We could raise the rating if the city's economic indicators improve to levels we consider comparable with those of higher-rated peers, along with moderation of its debt burden.

### Downside scenario

We could lower the rating if the city's economy weakens and negatively affects per capita incomes and market values. We could also lower the rating if the city experiences financial pressures that lead to structural budget imbalance and sustained declines in reserves.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

### Ratings Detail (As Of March 2, 2020)

Bonner Springs GO temp nts ser 2020-1 dtd 03/26/2020 due 04/01/2021

Short Term Rating

SP-1+

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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