



Rating Action: Moody's Ratings affirms Topeka, KS' Aa3 issuer/GO and Aa3 senior/A1 junior lien revenue ratings; stable outlook

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New York, August 09, 2024 -- Moody's Ratings (Moody's) has affirmed the City of Topeka, KS' Aa3 issuer and general obligation unlimited tax (GOULT) ratings. We also affirmed the city's Aa3 senior lien and A1 junior lien combined utility revenue ratings. Finally, we assigned a Aa3 rating to the city's anticipated \$26.5 million Combined Utility Revenue Bonds, Series 2024-B. Post sale, the city will have about \$560 million in total debt outstanding, comprised of both general obligation unlimited tax (GOULT) and utility revenue bonds. The outlook is stable.

RATINGS RATIONALE

The Aa3 issuer rating reflects the city's ongoing economic expansion, including a healthy demand for residential housing, which is driving revenue growth and will support maintenance of very strong operating reserves and liquidity. The city also derives considerable strength from the institutional presence of the state capital which partially mitigates full value per capita and resident income that are weaker than Aa peers. The financial profile is likely to remain strong and well above peers given conservative budgeting practices. The city's post-issuance leverage ratio is in line with peers at about 250%, and though the capital improvement program calls for roughly \$290 million in new debt issuance through fiscal 2029, revenue growth that approximates the city's recent trend is likely to maintain leverage around this level.

The city's GOULT bonds are rated Aa3, at the same level as the issuer rating, reflecting the Topeka's irrevocable pledge of its full faith, credit and resources to repayment of the bonds.

The Aa3 rating on the senior lien combined utility revenue bonds reflects a large and stable service area, inclusive of rural water districts served on a wholesale basis. The utility benefits from a pattern of codified multi-year rate increases that will support already strong liquidity, improved debt service coverage levels, and the significant infrastructure investment called for in the city's capital improvement plan. The rating also considers the system's elevated debt burden, which future issuance will maintain. Further, the rating incorporates the satisfactory bond covenants that include a 1.25 times rate covenant and additional bonds test, and a debt service reserve funded at the lesser of the standard 3-prong test.

The A1 rating on the junior lien combined utility revenue bonds is one notch below the senior lien rating because of the subordinate nature of the debt as well as the weaker bond covenants that include a 1.05x rate covenant and additional bonds test and a debt service reserve funded at the lesser of the standard 3-prong test.

RATING OUTLOOK

The stable outlook reflects the regional importance of the city and utility and that ongoing economic growth and utility rate hikes are likely to boost operating revenue, keep the city's reserves steady, and maintain a moderate leverage ratio. Combined with prudent budgeting, these elements lay the groundwork for a consistently stable financial status into the future.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Maintenance of long-term liabilities ratio below 200%
- Material improvement of resident income and full value per capita

- Trend of coverage exceeding 2 times debt service (utility enterprise)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Erosion of operating reserve ratio below 40%
- Maintenance of long-term liabilities ratio above 350%
- Trend of coverage falling below 1.5 times debt service (utility enterprise)
- Days cash on hand falling below 185 day reserve policy (utility enterprise)

LEGAL SECURITY

The city's GOULT bonds are general obligations backed by a pledge of the full faith, credit and resources of the city. The bonds are payable from ad valorem property taxes which may be levied without limitation as to rate or amount upon all taxable tangible property, real and personal, within the city's territorial limits.

The city's combined utility revenue debt, including the Series 2024-B bonds, are payable from the net revenue of the system. The junior lien bonds (Series 2021-B) are subordinate to (i) the system's outstanding state revolving fund loans and (ii) the system's outstanding parity (ie. senior lien) bonds.

USE OF PROCEEDS

Proceeds of the Series 2024-B bonds will finance improvements to the city's combined utility system and fund a debt service reserve fund.

PROFILE

The City of Topeka is the state capital and fifth largest city in Kansas (Aa2 stable) with an estimated population of 125,000 in 2023. The city provides public safety, parks and recreation (through Shawnee County (Aa1)), economic development and public health functions. The city's Combined Utility Enterprise provides water, stormwater, and water pollution control (wastewater) services.

METHODOLOGY

The principal methodology used in the issuer and general obligation ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. The principal methodology used in the revenue ratings was US Municipal Utility Revenue Debt published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/416489>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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