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Ratings

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Summary:

Dickinson County Public Building Commission, Kansas Dickinson County; Appropriations

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Credit Profile		
US$13.5 mil rev bnds (Dickinson County) ser 2018 dtd 10/01/2018 due 12/01/2043		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Dickinson County Public Building Commission (PBC), Kan.'s series 2018 revenue bonds, issued on behalf of Dickinson County. The outlook is stable.

Lease rental payments from Dickinson County to the PBC secure the revenue bonds. The county's obligation of rentals payable under the lease for its entire term are specifically exempt from portions of the provisions of Kansas' cash-basis and budget laws, and are not subject to annual appropriation, early cancellation, or termination. In addition, the county's obligation to levy ad valorem taxes to make rental payments under the lease is not subject to the tax lid applicable to Kansas cities and counties. The rating on the PBC's debt reflects our application of our linked rating criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018 on RatingsDirect. We rate the PBC bonds on par with the county's general creditworthiness because there is no annual appropriation risk, the lease term extends through final bond maturity, and the county has the ability to levy unlimited ad valorem taxes to make lease payments.

Bond proceeds will fund a new county jail and the renovation of the existing courthouse.

The 'AA-' rating reflects our opinion of the county's:

- Weak economy, with market value per capita of $77,000 and projected per capita effective buying income at 92.5% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available cash reserve in fiscal 2017 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.2% of total governmental fund expenditures and 7.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.9% of expenditures and net direct debt that is 77.2% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of

market value; and

- Strong institutional framework score.

Weak economy

We consider Dickinson County's economy weak. The county has an estimated population of 19,164. The county has a projected per capita effective buying income of 92.5% of the national level and per capita market value of $77,000. Overall, the county's market value grew by 3.5% over the past year to $1.5 billion in 2018. The county unemployment rate was 3.8% in 2017.

The county encompasses 852 square miles in east central Kansas on U.S. Interstate Highway I-70, approximately 90 miles west of Topeka and 160 miles west of the greater Kansas City metropolitan area.

Market value increased by a cumulative 12.1% in 2014 to 2018, which officials attribute to appreciation of existing values and new developments.

However, the county's population has declined in recent years. Officials attribute the trends to population out-migration to the eastern part of the state, especially as younger generations obtain education and relocate in search of better employment opportunities. These trends, in addition to baby boomers' reaching retirement stage, contribute to a shortage of labor force. However, management expects the trends to stabilize given ongoing economic growth.

Recent and pending additions to the tax base include a few new restaurants, a Love's truck stop, and Mid-Kansas Co-Op, a multimillion-dollar fertilizer facility. Existing businesses, such as Kubota, agricultural manufacturer Great Plains Manufacturing, and Russell Stover Candies, have announced or completed expansions recently. Russell Stover Candies is the county's largest employer (625 employees), followed by Memorial Health System (208), Unified School District No. 435 (188), and Great Plains Manufacturing. The largest taxpayers are diverse and include Westar Energy, Union Pacific Railroad, and BNSF Railroad. Residential growth appears minimal, with some individual single-family residences being built but no larger-scale developments underway.

Given the ongoing modest development, we expect the county's tax base to remain stable over the outlook horizon, but we don't anticipate material changes to its economic fundamentals.

Adequate management

We view the county's management as adequate, with standard financial policies and practices under our Financial Management Assessment methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

Highlights of key practices include:

- Utilization of historical trend analysis in budget preparation;
- Monthly budget-to-actual reports provided to the governing body;
- An informal reserve policy to maintain 5% of expenditures in the general fund;
- Adherence to state investment guidelines, with semiannual reporting; and

- Maintenance of a rolling five-year capital improvement plan.

The county lacks policies pertaining to debt management and does not maintain a long-term financial plan.

Strong budgetary performance

Dickinson County's budgetary performance is strong, in our opinion. The county had operating surpluses of 9.9% of expenditures in the general fund and of 10.1% across all governmental funds in fiscal 2017. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2017 results in the near term.

After adjustment for recurring transfers out of the general fund, the county experienced positive operating results in fiscal years 2016 and 2017. These results followed a deficit in fiscal 2015 of about 3%, mainly as a result of a transfer of about $380,000 to the justice center project fund. The surpluses in fiscal years 2016 and 2017 were mainly due to growing revenue and strong expenditure control.

We believe the county's budgetary performance will remain strong during the outlook period based on fiscal 2018 and fiscal 2019 projections. Fiscal 2018 projections estimate a general fund surplus of $733,000, or about 7% of general fund expenditures. While fiscal 2019 results could deteriorate somewhat from the very strong levels projected for fiscal 2018, management expects no significant changes in revenue or expenditures and has no plans to spend down available reserves. Thus, we don't expect material changes to the county's budgetary performance over the outlook horizon.

Strong budgetary flexibility

Dickinson County's budgetary flexibility is strong, in our view, with an available cash reserve in fiscal 2017 of 23% of operating expenditures, or $2.3 million: $1.3 million (13.1% of expenditures) in the general fund and $956,000 (9.6% of expenditures) outside the general fund but legally available for operations. Negatively affecting budgetary flexibility, in our view, is Dickinson County's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

In addition to the general fund unencumbered balances, we view funds in the county's capital improvement and equipment reserve funds as available, which adds flexibility to the county's reserves. As of fiscal 2017, the county maintained $105,000 and $851,000 in unencumbered balances in the capital improvement and equipment reserve funds, respectively.

The county estimates that it will end fiscal 2018 with an unencumbered general fund cash balance of about $2.1 million. In addition, ending balances in the capital improvement and equipment reserve funds are projected at $105,000 and $728,000, respectively. If these projections hold, available reserves will total $2.9 million, or nearly 27% of expenditures.

While the county plans to spend about $1.4 million in reserves to complete the justice center project, it will fund the project from money that it has transferred annually to the justice center project fund, which we do not include in the county's available reserves. The balance in the fund was $846,000 at fiscal year-end 2017, all resulting from general fund transfers over the past several years. The county budgeted to transfer $885,000 to the fund in fiscal 2018 and $1 million in fiscal 2019. After spending down the $1.4 million to finish the project, the remaining funds will be kept as operating reserves.

Outside of the projected draw on the funds that have been set aside for the justice center complex, the county has no plans to draw on available reserves. Thus, we expect flexibility to remain at least strong over the outlook horizon.

Very strong liquidity

In our opinion, Dickinson County's liquidity is very strong, with total government available cash at 44.2% of total governmental fund expenditures and 7.4x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

We expect the county's liquidity to remain very strong and stable over the next two fiscal years.

Investments primarily include certificates of deposit held with local banks and investments held with Kansas Municipal Investment Pool, which we do not view as aggressive.

We understand the county has no exposure to any contingent liabilities. The county's series 2016 refunding bonds were privately placed. The bonds, with an outstanding par amount of approximately $785,000, have no unusual provisions, covenants, or events of default that could pressure the county's liquidity.

Strong debt and contingent liability profile

In our view, Dickinson County's debt and contingent liability profile is strong. Total governmental fund debt service is 5.9% of total governmental fund expenditures, and net direct debt is 77.2% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, which is, in our view, a positive credit factor.

The county has no additional medium-term debt plans.

Dickinson County's pension contributions totaled 3.6% of total governmental fund expenditures in 2017. The county made its full annual required pension contribution.

The county participates in the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F), which are both cost-sharing, multiple-employer defined benefit pension plans administered by the state. As of June 30, 2017, KPERS' fiduciary net position as a percentage of total pension liability was 67.1%.

We believe the county's very strong budgetary flexibility and modest pension contribution compared with expenditures somewhat offset the plan's relatively low funded ratio. We believe these strengths will allow the county to continue to make its required contributions in full while officials make the necessary budgetary adjustments to handle contribution rate increases that the state could impose.

The county consistently meets its annually required contributions, which are actuarially determined and totaled $422,961 for KPERS and $185,953 for KP&F in fiscal 2017. The county's proportionate share of the collective net pension liability was $4.0 million for KPERS and $1.8 million for KP&F as of June 30, 2017, based on Dec. 31, 2016 actuarial valuation.

The county does not provide other postemployment benefits.

Strong institutional framework

The institutional framework score for Kansas counties 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 the county will likely maintain its very strong liquidity and strong budgetary flexibility. Therefore, we do not expect to change the rating during the two-year outlook horizon.

Downside scenario

We could lower the rating if the county experienced deficits, whether as a result of operating imbalance or capital expenditures, resulting in deteriorating reserves. We could also lower the rating if the county's economic metrics decline to levels more comparable with those of lower-rated peers.

Upside scenario

We could raise the rating if the county's economic metrics were to improve significantly to levels commensurate with those of higher-rated peers, coupled with the buildup and maintenance of what we consider very strong reserves, assuming no changes to other credit factors.

Related Research

2017 Update Of Institutional Framework For U.S. Local Governments