

### Summary:

## Manhattan, Kansas; General Obligation

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## Summary:

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### Credit Profile

US\$6.7 mil GO bnds ser 2010A dtd 06/01/2010 due 11/01/2030

*Long Term Rating*

AA/Stable

New

Manhattan GO bnds ser 2009A

*Long Term Rating*

AA/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating, and stable outlook, to Manhattan, Kan.'s series 2010-A general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the city's existing GO debt.

In our opinion, the rating reflects the city's:

- Stable economic base, anchored by Kansas State University and Fort Riley;
- Strong wealth levels; and
- Very strong historical financial position, supported by good financial practices.

We believe these strengths are somewhat weakened by the city's:

- Growth-related operational and capital needs, resulting in declining fund balances; and
- Moderately high debt levels, along with high carrying charges.

The city's unlimited-tax GO pledge secures the bonds. City officials intend to meet some debt service payments on these bonds with special assessments on properties benefited by the construction of certain public improvements. Officials plan to use bond proceeds to provide permanent long-term financing for street, sewer, and other improvements.

The 18.5-square-mile Manhattan, with a population estimate of 51,727, is mainly in Riley County with a small portion extending into Pottawatomie County. The local economy is primarily centered on Kansas State University and the 158-square-mile Fort Riley, one of the nation's largest U.S. Army posts. Due to base realignment and closure changes in 2005, Fort Riley has received significant additions to its operations and personnel, which has driven the region's population and economic growth. City per capita retail sales are 121% of the national average, supporting Manhattan's role as a primary economic center in this rural area. Additional leading employers in the Manhattan area include Unified School District No. 383 and Mercy Regional Medical Center. We consider the city's property tax base very diverse with the 10 leading taxpayers accounting for 9.4% of total assessed value (AV). Total AV increased by 46% over the past five years to \$431.8 million in fiscal 2009. In our opinion, city income levels are adequate: Median household effective buying income is 79% of the national level; the city's significant student population has an effect on these levels. Market value, an indicator of wealth, is \$59,537 per capita, which we consider strong. Due, in part, to the increased economic activity from Fort Riley's expansion, city unemployment averaged just 4.1% in 2009 compared with the nation's 9.3% rate.

In our view, Manhattan's financial position has been very strong over the past four audited fiscal years; but recently,

the region's general economic slowdown has had an effect on the city. For unaudited fiscal 2009, management estimates it used roughly \$1.5 million of fund balance to cover an extra payroll period during the year and additional operating expenses. Officials estimate that fiscal 2009 ended with a \$3.8 million unreserved fund balance, or roughly 18.5% of expenditures, which we still view as very strong. With sales tax and AV growth moderating from previous years, management is projecting to use an additional \$800,000 of fund balance in fiscal 2010 to cover expected shortfalls in sales tax collections, which are currently trending about 5% below where they were a year ago due primarily to falling automobile sales. Before the national recession, the city maintained fund balances ranging between 22% and 34% of expenditures during fiscals 2005-2008. Following a \$1.5 million transfer into the general fund, mainly from the sales tax fund, the city posted a \$1.8 million operation surplus and increased the unreserved general fund balance to \$5.6 million, or 28.1% of expenditures, at fiscal year-end 2008.

Standard & Poor's considers Manhattan's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Following these issuances, our view is that the overall net debt burden is a moderately high 6.8% of market value, or a moderate \$4,077 per capita. We consider the debt service carrying charge a high 29% of general fund expenditures. Debt amortization is, in our opinion, rapid with officials planning to retire about 70% of principal over the next 10 years. The city pays debt service on roughly 68% of bonds and temporary notes outstanding through special assessments levied on certain properties. Management is contemplating issuing between \$5 million and \$10 million of additional debt in November 2010 as work related to the downtown redevelopment project progresses.

## Outlook

The stable outlook on the 'AA' rating reflects Standard & Poor's expectation that the city should maintain its strong financial position in light of challenges to the city's revenue stream given the region's general economic slowdown and the city's growth-related expenses. The city's good financial management practices should ensure satisfactory financial performance as officials address the capital program. To prevent downward rating pressure, officials need to monitor the city's financial position carefully so reserves will not significantly decline below current levels due to a lack of a minimum reserve requirement.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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