FitchRatings

Olathe, Kansas

New Issue Summary

Sale Date: June 15, competitively.
Series: General Obligation Improvement Bonds, Series 234; and $51,130,000 General Obligation Temporary Notes, Series 2021-A.
Purpose: The bonds and notes are being issued to finance a portion of the costs of certain public improvements and to refund certain general obligation bonds.
Security: The bonds and notes carry Olathe's (the city) unlimited tax general obligation pledge.

The 'AA+' rating reflects Fitch Ratings' expectation that the city will maintain a superior level of fundamental financial flexibility in an economic downturn, including superior inherent budget flexibility. The rating also reflects a low long-term liability burden. The 'F1+' rating on the notes corresponds to the Long-Term rating.

Economic Resource Base: Olathe is a suburban community located approximately 20 miles southwest of Kansas City, KS, and is the seat of Johnson County. The city's population has doubled since 1990, and it presently stands at approximately 141,000.

Key Rating Drivers

Revenue Framework: 'aaa': Fitch expects that the city's revenue growth absent policy actions will continue at a rate in line with national GDP. The city has an unlimited ability to raise revenues after the repeal of the tax lid in March 2021.

Expenditure Framework: 'aa': The natural pace of expenditure growth should be in line with that of revenue growth, and the city has solid control over its main expenditure items.

Long-Term Liability Burden: 'aaa': Long-term liabilities are low at around 11% of personal income. Fitch expects the metric to remain at around 10% as the tax base growth should exceed growth in the liability burden over time.

Operating Performance: 'aaa': The rating assumes that the city will continue to maintain reserves at a level consistent with a 'aaa' financial resilience assessment during the current economic downturn. The city has maintained high reserves throughout the recent economic recovery.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A sustained decline in carrying costs; A sustained, materially lower long-term liability metric, which Fitch does not anticipate.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- **A reduction in revenue growth expectations; An increase in long-term liabilities such that the long-term liability metric becomes inconsistent with the 'aaa' assessment;** Although not expected, a material weakening of financial resilience through the usage of available reserves.

Public Finance
Tax-Supported
U.S.A.

Ratings

Long-Term Issuer Default Rating	AA+

New Issues

$111,600,000 General Obligation Improvement Bonds, Series 234	AA+
$51,130,000 General Obligation Temporary Notes, Series 2021-A	F1+

Outstanding Debt

General Obligation Bonds	AA+
General Obligation temporary Notes	F1+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Olathe (KS) GO Bonds 'AA+' and GO Notes 'F1+'; Outlook Stable (June 2021)

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Current Developments

Due to the coronavirus pandemic, the city projected that it will see revenue declines of almost 13% in fiscal 2020 and implemented several expenditure reductions, including hiring freezes, a cap on expenditures and some furloughs. Revenue did not fall as much as anticipated, and the city finished 2020 with operations that were basically balanced and available reserves at around 29% of expenditures and transfers out based on preliminary financial statements.

In 2021, the city budgeted expenditures to be below the 2020 budget by around $1.4 million (1%). Revenue is tracking 6% above 2020 levels year to date. The city has been allocated $14.9 million through the American Rescue Plan Act and is considering utilizing some of that allocation to replace lost revenue.

Credit Profile

The city benefits from its proximity to the Kansas City metropolitan statistical area in addition to its own vibrant and expanding commercial/industrial sector, anchored by several national companies. Economic indices are favorable and unemployment is low. Large employers include Farmers Insurance and Garmin, which are expanding their operations in the city. Assessed value growth has been strong, increasing by between 6% and 9% each year from 2014 through 2019.

Revenue Framework

The city's revenue growth should remain strong given the diverse tax base and revenue stream. Sales tax comprised over 50% of 2020 (unaudited) general fund revenue while property tax revenue made up around 20%. Fitch believes exemptions in the statewide property tax lid law will enable the city to continue to increase revenues at a substantial level if necessary.

General fund revenue grew at an average of 4.3% annually from 2009 to 2019 adjusted for tax policy action. Fitch expects ongoing economic development and assessed value expansion will lead to continued revenue growth in line with GDP growth.

As part of Senate Bill 13, the state Legislature repealed the tax lid that had set limits on property tax levy increases with some exclusions. Under that legislation, a revenue neutral rate was implemented for all jurisdictions. The legislation established a process for entities to exceed that rate, however, requiring only a notice and a public hearing prior to the adoption of a mill rate that exceeds the revenue neutral rate.

Expenditure Framework

The city's main expenditure items include public safety, general government and public works (55%, 25% and 11% of general fund expenditures, respectively, in the 2020 preliminary financial statement).

Fitch expects that the natural growth rate of expenditures will be in line with or marginally above the strong natural growth rate of revenue.

The city has a solid degree of flexibility in its main expenditure items. Carrying costs were around 20% of government expenditures in 2019, with the majority of the carrying costs for rapidly amortizing debt. In addition, the city has no labor contracts, so there is ample flexibility to control headcount. Fitch expects the level of carrying costs to decline given the declining debt service schedule.

Long-Term Liability Burden

Olathe's long-term liabilities are at the high end of the low category, with the combined, Fitch-adjusted net pension liability and overall debt as a percentage of personal income at around 11%. Fitch expects that city personal income may grow at a faster rate than long-term liability growth, which should keep the metric at around 10% over the long term. The city has moderate debt plans over the next year and a fast amortization schedule at almost 90% of debt maturing within the next 10 years. Fitch expects that the long-term liability burden as a percentage of personal income will remain relatively close to 10% over the next several years as new debt replaces the debt rolling off while the pension burden increases and the resource base grows.

The city participates in two components of the cost-sharing, multiple-employer Kansas Public Employees Retirement System covering general employees and uniformed workers. As of the

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	6/4/21
AA+	Assigned	Stable	5/8/14

measurement date in Olathe's most recent audit, both components show a ratio of assets to liabilities of 70%. As adjusted by Fitch to reflect a 6% discount rate instead of the 7.75% rate used by the plan, that ratio falls to 56%.

Operating Performance

Fitch expects that the city will continue to exhibit a superior level of gap-closing capacity through the current recovery given its high degree of inherent budget flexibility and strong available reserves. The city's reserve levels, which are far above the level Fitch believes is needed to offset a revenue decline in a moderate downturn scenario, enhance the high inherent budget flexibility in the current baseline stress scenario. The city's available general fund reserve levels in 2019 were 29% of general fund expenditures.

The city has maintained a high level of available reserves through the course of the expansion that followed the great recession. Current available reserve levels are above both the city's formal policy of maintaining at least 15% of revenues in the general fund and in line with its target of 30% of revenues.

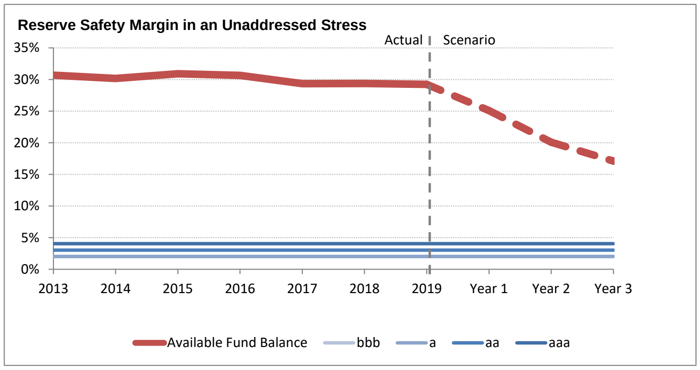
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Olathe (KS)

Scenario Analysis

Ver 45



Analyst Interpretation of Scenario Results

Fitch expects that the city will continue to exhibit a superior level of gap-closing capacity through the current recovery given its high degree of inherent budget flexibility and strong available reserves. The city's reserve levels, which are far above the level Fitch believes is needed to offset a revenue decline in a moderate downturn scenario, enhance the high inherent budget flexibility in the current baseline stress scenario. The city's available general fund reserve levels in 2019 were 29% of general fund expenditures.

Scenario Parameters:		Year 1	Year 2	Year 3
GDP Assumption (% Change)		(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)		2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-1%** *Case Used:* **Moderate**	(2.0%)	1.0%	4.1%
Inherent Budget Flexibility			Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	74,549	80,222	82,382	85,795	93,230	98,411	98,711	96,710	97,690	101,649
% Change in Revenues	-	7.6%	2.7%	4.1%	8.7%	5.6%	0.3%	(2.0%)	1.0%	4.1%
Total Expenditures	71,062	74,176	76,823	80,800	85,104	90,443	93,427	95,295	97,201	99,145
% Change in Expenditures	-	4.4%	3.6%	5.2%	5.3%	6.3%	3.3%	2.0%	2.0%	2.0%
Transfers In and Other Sources	5,923	5,848	6,123	6,267	6,421	6,890	7,147	7,002	7,073	7,360
Transfers Out and Other Uses	8,496	10,706	10,412	10,360	13,644	13,385	12,020	12,260	12,505	12,755
Net Transfers	(2,573)	(4,858)	(4,289)	(4,092)	(7,223)	(6,495)	(4,873)	(5,258)	(5,432)	(5,396)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	914	1,188	1,269	902	903	1,473	412	(3,843)	(4,943)	(2,891)
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	1.1%	1.4%	1.5%	1.0%	0.9%	1.4%	0.4%	(3.6%)	(4.5%)	(2.6%)
Unrestricted/Unreserved Fund Balance (General Fund)	24,406	25,605	26,962	27,957	28,975	30,508	30,815	26,973	22,030	19,138
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	24,406	25,605	26,962	27,957	28,975	30,508	30,815	26,973	22,030	19,138
Combined Available Fund Bal. (% of Expend. and Transfers Out)	30.7%	30.2%	30.9%	30.7%	29.3%	29.4%	29.2%	25.1%	20.1%	17.1%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	32.4%	16.2%	10.1%	6.1%	4.1%
Reserve Safety Margin (aa)	24.3%	12.2%	8.1%	5.1%	3.0%
Reserve Safety Margin (a)	16.2%	8.1%	5.1%	3.0%	2.0%
Reserve Safety Margin (bbb)	6.1%	4.1%	3.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.