

February 28, 2012

Summary:

Mulvane, Kansas; General Obligation; General Obligation Equivalent Security

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Summary:

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Credit Profile		
US\$14.42 mil GO bnds ser 2012A dtd 03/20/2012 due 10/01/2027		
Long Term Rating	A+/Stable	New
Mulvane GO		
Long Term Rating	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating and stable outlook to Mulvane, Kan.'s series 2012A general obligation (GO) bonds and affirmed its 'A+' rating, with a stable outlook, on the city's existing GO bonds.

Standard & Poor's also affirmed its 'A+' rating, with a stable outlook, on Mulvane Public Building Commission, Kan.'s refunding revenue bonds, supported by Mulvane.

The rating reflects our opinion of the city's:

- Access to the broad Wichita metropolitan area;
- Good income based on median household income; and
- Historically very strong finances, supported by, what we consider, good financial practices.

We believe somewhat offsetting credit factors include the city's:

- Limited local economy; and
- High carrying charges, coupled with, what we view as, high overall debt as a percent of market value.

The city's unlimited ad valorem tax pledge secures the bonds, but it is the city's intention to pay debt service for the series 2012 bonds from special assessments levied on the property benefited by the construction of improvements. Officials plan to use bond proceeds to provide permanent financing for various internal city improvement projects.

Mulvane, with an estimated population of 6,111, is about 15 miles south of Wichita ('AA+' GO debt rating), providing residents convenient access to Wichita's broad employment base. Nearby McConnell Air Base, which employs more than 3,500, is home to the world's largest air tanker refueling base. The city's population includes many of the base's personnel and a large number of military retirees. In our opinion, median household income is a good 107% of the national average. Market value, a wealth indicator, is, in our view, an adequate \$36,235 per capita.

Mulvane has not experienced significant issues with foreclosures, but property tax base growth has slowed during the current economic slowdown. Assessed value (AV) increased by just an aggregate 4% over the past five years to \$39.8 million for fiscal 2011. The Kansas Star Casino & Equestrian Events Center is developing property within the city's limits; once this is completed, the property tax base should more than double. The casino and events center's

completion will occur in phases with completion scheduled for 2015. The casino has been operational since December 2011, and it currently employs 550. A 150-room hotel will be complete by the end of 2012, and an additional 150-room hotel is expected to be complete by the end of 2013. The tax base is very diverse with the 10 leading taxpayers accounting for 5% of AV.

In our opinion, Mulvane's finances remain very strong. Its fiscal 2012 outlook is positive due to management's expectation of the addition of casino-generated gaming revenue. The city, by statute, will receive 1% of all casino gaming revenue; officials are projecting to receive \$560,000 in fiscal 2012 and \$1.5 million annually. Officials are projecting the general fund balance to remain stable by fiscal year-end 2012. For fiscal 2011, management estimates the general fund ended with a \$1.5 million balance, or roughly 55% of expenditures. Mulvane closed fiscal 2010 with a \$1.6 million unreserved general fund balance, or, in our opinion, a very strong 71% of expenditures, after a small \$98,000 fund balance drawdown; management attributes the drawdown mainly to transfers into the equipment replacement fund, as well as to the public building commission for emergency medical services facility rentals. Property taxes generated 50% of fiscal 2010 general fund revenue, followed by sales taxes at 22% and franchise taxes at 13%.

Standard & Poor's deems Mulvane's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Management's formal general fund reserve policy is to maintain unreserved balances of at least 5% of revenue. The city estimates revenue and expenditures using historical trend analysis, and it uses outside sources of information to determine whether revenue or expenditures could deviate from historical trends. Management provides the city council with monthly budget updates, and the council can amend the budget as needed. Mulvane's formal investment policy follows state law, and management provides quarterly investment reports to the city council. Management maintains a five-year capital improvement plan, but it does not maintain formal debt policies.

In our opinion, following this issue and after accounting for support from the utility system, overall net debt is a high 13.8% of market value, or a moderate \$5,006 per capita. Debt service carrying charges were, in our view, a high 26% of fiscal 2010 general fund expenditures. We consider amortization rapid with officials planning to retire about 59% of principal over 10 years and 100% over 20 years. We understand the city has two projects -- a fire station and a water tower -- coming up within the next two years that it could issue bonds for potentially.

Mulvane participates in the Kansas Public Employees' Retirement System, a cost-sharing, multiple-employer, state-administered, defined-benefit pension plan. The state determines contributions annually based on the results of an annual actuarial valuation. For fiscal 2011, contributions were \$205,659, or 7.5% of general fund expenditures, which equaled the statutory-required contribution for the year. Retirees can participate in the city's group health insurance plan at no cost to the city since the retiree is responsible for the full premium amount.

Outlook

The stable outlook reflects Standard & Poor's opinion that management will likely maintain, what Standard & Poor's considers, sound finances while effectively managing capital needs. We do not think we will change the rating within the stable outlook's two-year period since we recognize the city's debt will likely remain, in our view, high as it addresses infrastructure needs driven by casino development.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of February 28, 2012)		
Mulvane GO		
Long Term Rating	A+/Stable	Affirmed
Mulvane Pub Bldg Comm, Kansas		
Mulvane, Kansas		
Mulvane Pub Bldg Comm (Mulvane) Ise (Fire / Ems Facility)		
Long Term Rating	A+/Stable	Affirmed

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