



Moody's Investors Service

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March 16, 2009

Mr. Michael Yanez
City Administrator
City of Tonganoxie
321 South Delaware Street
Tonganoxie, KS 66086

Dear Mr. Yanez:

We wish to inform you that on March 13, 2009, Moody's Rating Committee reviewed and assigned a rating of **A3** to Tonganoxie (City of) KS's General Obligation Bonds, Series 2009 A.

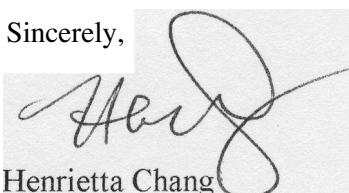
In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Beth Dougherty, at 312-706-9970.

Sincerely,



Henrietta Chang

cc:
Mr. Tom Kaleko
Springsted Public Finance Advisors

New Issue: Tonganoxie (City of) KS

MOODY'S ASSIGNS A3 RATING TO THE CITY OF TONGANOXIE'S (KS) \$1.355 MILLION GENERAL OBLIGATION BONDS, SERIES 2009A

A3 RATING APPLIES TO \$5.9 MILLION OF POST-SALE GOUIT DEBT

Municipality
 KS

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2009A	A3
Sale Amount \$1,355,000	
Expected Sale Date 03/16/09	
Rating Description General Obligation	

Opinion

NEW YORK, Mar 13, 2009 -- Moody's Investors Service has assigned an A3 rating to the City of Tonganoxie's (KS) \$1.355 million General Obligation Bonds, Series 2009A. Concurrently, Moody's has affirmed the A3 rating on the city outstanding general obligation debt, affecting \$4.6 million. Proceeds of the Series 2009A bonds will provide long-term financing for the city's Tax-Exempt Temporary General Obligation Notes dated April 15, 2005 which financed road improvements. The Series 2009A is secured by the city's general obligation unlimited tax pledge. Assignment of the A3 rating reflects the city's small but rapidly growing tax base that is favorably located near multiple employment centers in northeast Kansas; modest budget that is characterized by stable financial operations with ample reserves; and above average debt levels that are characteristic of a growing community.

SMALL BUT RAPIDLY GROWING TAX BASE FAVORABLY LOCATED NEAR MULTIPLE EMPLOYMENT CENTERS IN NORTHEAST KANSAS

Located in Leavenworth County (general obligation rated A1), Tonganoxie has been one of the fastest growing communities in Kansas over the last few years. The city's tax base is small, with a 2008 full value of \$315 million, but the pace of growth is rapid: full value increased at an average annual rate of 12.4% per year between 2004 and 2008, compared to an average annual growth rate of 6.9% for Kansas cities. Tax base growth continues to be driven by new residential development, though more slowly than in recent years, as families are attracted to affordable homes within commuting distance to multiple employment centers, including Kansas City, Missouri (Aa3/stable outlook), Johnson County (Aaa), Lawrence (Aa2), and the state capital of Topeka (Aa3). Officials report that the local residential market remains stable with relatively few foreclosures and ongoing developer interest in new residential development. To complement the city's residential base, the city is planning the opening of an industrial park with 237 acres. Officials anticipate significant developer interest given that Leavenworth County currently has very limited space for such development and Tonganoxie's beneficial location and new interchange to I-70 that is expected to open in November. Mirroring the trends in tax base growth, the city's population has increased significantly in recent decades: the 2007 census population of 4,156 reflects over 50% growth since 2000. Wealth levels approximate state medians, with per capita income and median family income at 88% and 101% of the state, respectively.

MODEST BUDGET CHARACTERIZED BY STABLE FINANCIAL OPERATIONS; DRAWS ON RESERVES BUDGETED

Moody's expects the city's financial health to remain stable due to conservative management practices and the historical maintenance of General Fund reserves. Despite budgeting the use of reserves, the city has posted annual General Fund surpluses over the last several years, with the exception of fiscal 2007 in which it closed with a minimal \$71,000 deficit. As a result, General Fund reserves increased significantly from \$234,348 in fiscal 2003 to \$962,000 in fiscal 2007, or a sound 64.2% of revenues. Officials report another expected reduction in fund balance at the close of fiscal 2008 down to \$828,000. The city's 2009 budget reflects a further reduction of reserves to an extremely narrow \$85,689; however, management reports that the city's fund balance target of maintaining 20% of expenditures in reserves is built in to the annual budget as a contingency line item and therefore is not reflected in the budgeted year end cash position. While sound

in practice, Moody's notes that on a nominal basis, such a reserve level would be weak in comparison to the city's peers within the rating category. City officials report additional positive budget variances have already been identified that would bring the fiscal 2009 General Fund balance to over \$600,000. Moody's anticipates that continued conservative financial management and positive budget variances that maintain reserve levels will be key factors in future rating analysis.

Kansas cities have no property tax levy limits, which Moody's views as a credit strength, as it allows cities to raise the property tax levy in order to generate additional revenues if needed. The city receives revenues from a share of the countywide sales tax, as well as from a city sales tax. Approved by the voters, approximately half of the city's 1% sales tax is used for street maintenance projects, and half is used for general operations. The city residents also approved an additional 0.75% sales tax in 2007 but legally designated the proceeds to retire the city's swimming pool bonds; the sales tax expires when the bonds are retired in 2017.

ABOVE AVERAGE DEBT LEVELS CHARACTERISTIC OF GROWING COMMUNITY

Moody's believes the city's above average debt levels will remain elevated over the near-term due to slower than anticipated growth, average amortization and potential additional borrowing needs. At 3.1% and 6.9%, respectively, the city's direct debt position and overall debt burden are both above state and national medians. The majority of the city's direct general obligation debt has financed road projects and improvements to the water and sewer system. Just over half of the city's general obligation debt is supported by utility revenues, special assessments and receipts from a dedicated 0.75% sales tax (the Series 2007B bonds), which mitigates the burden on the general property tax levy. Additionally, the majority of the city's overall debt burden reflects the borrowing of the Tonganoxie Unified School District No. 464. With 67.7% of the city's direct debt retired in ten years, the rate of principal amortization is average. The city may issue up to \$2.0 million later this year for street and utility improvements, though management notes this issuance could be pushed to next year or later. Moody's notes the city's credit quality could be pressured should tax base growth continue much slower than expected and additional borrowing produces significantly increased debt levels.

KEY STATISTICS

2007 Census population: 4,156 (a 52% increase from 2000)

2008 full value: \$315 million

2008 full value per capita: \$75,879

1999 per capita income: \$18,026 (88% of state)

1999 median family income: \$49,960 (101% of state)

Fiscal 2007 General Fund balance: \$962,000 (64.2% of General Fund revenues)

Direct debt position: 3.1% (overall: 6.9%)

Overall debt burden: 76.8%

Principal amortization (10 years): 67.7%

Post-sale rated GOULT debt: \$5.9 million

Total post-sale GOULT debt: \$13.9 million (including state loans and temporary notes)

The principal methodology used in rating this issue was Local Government General Obligation and Related Ratings, which can be found at www.moody's.com/in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

The last rating action on the City of Tonganoxie was on April 4th, 2008 when the A3 rating on the city's GOULT debt was affirmed.

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