

# Municipal Market Comments



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## Wichita Loses Boeing; Long-term Credit Implications Uncertain

On January 4, 2012, Boeing (NYSE: BA) announced that it will shut down its operations in Wichita, KS (G.O. ratings Aa1/AA+, outlooks stable). The move will eliminate all 2,160 jobs in Boeing's military aircraft operations in Wichita by 2014. The move by Boeing comes as the company tries to position itself to best compete for military systems contracts in a future defense appropriation environment that is expected to be squeezed by federal budget cuts. In our past comments we have noted how federal budget pressures, whether through discretionary cuts or via the sequester mechanism that will mandate spending cuts in 2013, could have impacts on local municipalities. Wichita's situation illustrates one way in which such pressures may manifest in the real world and the uncertainties of what the ultimate credit impacts might be on issuers.

The Boeing jobs to be eliminated represent 7% of sector employment and 0.8% of total area nonfarm employment. As of December 2010, Boeing was the 10th largest employer in the Wichita metro area. Of potentially greater impact will be Boeing's expected sale of some 2 million square feet of property. Wichita depends heavily on aircraft manufacturing and related businesses in its manufacturing employment base. The City has long been known as a center for aviation and commercial aircraft manufacturing, and houses operations of companies including Boeing, Cessna, Hawker Beechcraft, Learjet, and Airbus. As of year-end 2010, transportation equipment manufacturing represented 11.2% of total nonfarm employment in the Wichita metro area. From the fall of 2008 through 2010, Wichita lost approximately one-third of its aircraft manufacturing employment due to layoffs across most employers in the sector. During 2011, economic activity in the aircraft manufacturing sector improved somewhat, and prior to the Boeing announcement, Wichita was seeing a positive trend of hiring increases and business expansion among employers in the sector.

While Boeing's announcement is certainly a negative for the City, the ultimate employment and tax base impacts are a long way from being determined. The long-term outcome for Wichita's local economy, and for its credit quality, will depend on how effectively the City and private companies can redevelop Boeing's facilities into productive economic assets. The City's

past experience illustrates this point: in 2004, Boeing announced plans to sell its commercial aircraft division in Wichita. The transaction formed Spirit AeroSystems, which remains a significant manufacturer of commercial aviation components for Boeing and a number of other major aircraft manufacturers. At the time of the 2004 announcement, Boeing employed approximately 12,400 workers in Wichita. As of December 2010, Spirit AeroSystems was Wichita's largest employer, with 10,150 employees in its Wichita headquarters and more than 15 million square feet of operations. What initially appeared to be a significant threat to the manufacturing base of the City was transitioned into a stable cornerstone of local employment and economic activity.

We will continue to monitor developments in Wichita and comment on the credit of the City and related issuers as warranted. The situation in Wichita, in general if not in its specifics, is likely to be replayed in numerous municipalities throughout the U.S. in the coming years, as federal spending fights pressure government contractors and direct-funded government programs. We do not believe that the Boeing announcement should prompt investors to sell bonds issued by the City or other related entities in the near term, as financial impacts to local issuers are unlikely to manifest for at least 18 to 24 months. Even then, we do not view Boeing as being a large enough component of the City's economic base to fundamentally change the credit quality of the City or related issuers. However, City management's reaction to these developments over the coming years will say a lot about the City's ability to weather financial setbacks and continue on a path of high long-term credit quality.

A handwritten signature in black ink, appearing to read "B. Tournier", with a long horizontal flourish extending to the right.

**Brian Tournier**  
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