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Summary:

McPherson, Kansas; General Obligation

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Summary:

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Credit Profile

McPherson GO

Long Term Rating

AA-/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on McPherson, Kan.'s general obligation (GO) debt one notch to 'AA-' from 'A+' based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

The city's full-faith-and-credit and unlimited-ad valorem-property-tax pledges secure the bonds.

The rating reflects the following credit factors for McPherson:

- We view McPherson's local economy as weak with projected per capita effective buying income of 104% of the national average. Market value is an estimated \$50,200 per capita. According to the U.S. Bureau of Labor Statistics, unemployment was 3.9% in 2013. McPherson, with a population estimate of 13,487, is about 50 miles north of Wichita. McPherson is McPherson County's seat and commercial center. The area economy has a significant industrial component that includes oil refining, plastics, pharmaceuticals, and fiberglass. Leading city employers include Hospira Inc. (1,020 employees), a pharmaceutical producer; McPherson School District (717); National Coop Refinery Assn. (640), an oil-and-gasoline refinery; McPherson Hospital (315); and Viega (300), a plumbing products manufacturer. The city also has two higher education campuses, Central Christian College and McPherson College, with a combined enrollment estimate of 1,100.
- In our view, McPherson's management conditions are strong with "good" financial management practices under our Financial Management Assessment methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Management provides the city commission with monthly financial and investment updates, and we understand it can amend the budget as needed. The city adopts a two-year budget past the current fiscal year. It also maintains long-term capital plans for each department, including estimated costs and funding sources. While McPherson does not maintain a formal reserve and liquidity policy, officials informally target a general fund cash reserve of \$3 million, or approximately 35% of expenditures. We recognize debt management policies exist, and officials assess project needs and funding options. We understand McPherson officials strive to retire 20% of GO debt over five years and 100% over 15 years.
- In our opinion, budgetary flexibility is very strong with available reserves of 129% of operating expenditures in fiscal 2013. Fund balance should remain more than 75%, which we view as a credit strength. We recognize McPherson adheres to the Kansas Municipal Audit and Accounting Guide for a regulatory basis of accounting, which we view as a credit negative.
- In our view, very strong liquidity supports McPherson's finances with available cash of 278% of total governmental funds expenditures and 33.7x debt service coverage. Based on past debt issuance, we believe McPherson has strong access to capital markets to provide liquidity, if necessary.
- We consider overall budgetary performance strong with a surplus of 11.1% for the general fund and a deficit of 2.1%

for total governmental funds in fiscal 2013. Management is projecting it will carry additional cash forward for the general and total governmental funds for fiscal 2014.

- In our view, McPherson's debt and contingent liabilities profile is weak. Net direct debt is 220.8% of total governmental funds revenue, and debt service is 8.3% of total governmental funds expenditures. Officials plan to retire approximately 82% of debt over 10 years, which we view as a credit strength. McPherson's fiscal 2013 Kansas Public Employees' Retirement System statutorily mandated contribution was 3.1% of expenditures. The plan was 63.7% funded as of the Dec. 31, 2013, actuarial valuation.
- We consider the Institutional Framework score for Kansas municipalities strong.

Outlook

The stable outlook reflects Standard & Poor's opinion that McPherson will likely sustain its very strong reserves while maintaining access to liquidity. While we do not expect to change the rating further within the next two years, we could lower the rating if overall financial performance were to deteriorate. Conversely, we could raise the rating if economic indicators and debt were to improve.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Kansas Local Governments

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