

RatingsDirect®

Summary:

McPherson, Kansas; General Obligation

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Summary:

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Credit Profile		
US\$3.255 mil GO bnds ser 142 2025 dtd 04/29/2025 due 08/01/2045		
Long Term Rating	AA-/Stable	New
McPherson GO		
Long Term Rating	AA-/Stable	Affirmed
McPherson GO		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to McPherson, Kan.'s proposed \$3.3 million general obligation (GO) bonds, series 142 of 2025.
- At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the city's existing GO debt.
- The outlook is stable.
- The rating is based on the application of our "Methodology For Rating U.S. Governments" criteria, published Sept. 9, 2024.

Security

The series 142 of 2025 and several of the city's GO bonds are payable, in part, from special assessments levied on the property benefited by the projects being financed with the bond proceeds, and, if these are not paid, from ad valorem taxes levied without limitation as to rate or amount on all taxable property in the city. However, we rate these issues based on the city's unlimited ad valorem pledge. We do not believe we have sufficient information to rate the special-assessment pledge.

Bond proceeds will be used for irrigation projects at the city-owned golf course and for street and sewer improvements.

Credit overview

The rating reflects the city's stable local economy anchored in manufacturing; mixed operating results recently, but with a healthy reserve position compared to those of national peers; and moderating debt burden, but with additional capital needs.

The city has recorded mixed operating results recently. The fiscal 2023 surplus in the general fund was the result of higher-than-budgeted interest earnings and vacancy savings, according to management. Unaudited results for fiscal 2024 reflect a \$525,760 surplus, or 3.6% of general fund revenues. The city's 2025 budget includes uses of existing reserves, consistent with state budget law; however, we recognize that actual results are often significantly better than budgeted, as in the most recent audited fiscal year. Management indicates that sales tax collections are currently

trending above budget, which could lead to positive budget variance on the revenue side. We do not anticipate material variance in the city's financial performance.

The city's capital plan reflects about \$61 million in needs identified by officials, including a new police headquarters estimated to cost \$15 million. Management indicated that it looks to cash-fund needs as much as possible and has no concrete debt plans in the next year. Given the needs identified by the city, however, we believe that it is likely to spend down its reserve position or issue additional debt in the near term. These factors are considered in our rating.

The rating reflects our view of the city's:

- Strong economic output, as measured by gross county product (GCP) per capita and income metrics compared to those of peers; however, the tax base is smaller, with marginal growth over the past five years. The 7.4-square-mile city is located approximately 50 miles north of Wichita and has a significant industrial component that includes oil refining, plastics, pharmaceuticals, and fiberglass. Manufacturing accounts for over 40% of countywide employment, which we view as a negative credit factor.
- Management budgeting practices include use of historical data and state budgeting guidelines to create annual budgets. The city no longer generates multi-year financial forecasts given volatile global markets, shifting policies, and inflationary pressures. It has formal investment and debt policies and an informal fund balance policy to maintain a general fund balance of at least \$3 million, which it has historically followed. Management is taking measures to mitigate cyber risk.
- Healthy cash reserve position that includes \$6 million (54% of general fund revenues) in the general fund and an additional unencumbered \$4.6 million and \$1.1 million in the city's capital improvement and equipment reserve funds, respectively, that we also consider available for operations, if needed. The city typically uses these funds to address ongoing capital needs.
- Manageable debt and pension liabilities, with an above-average amortization schedule. We do not believe the city's debt profile will materially change even if it issues debt, given its repayment schedule. We do not view pension obligations as a credit pressure in our outlook horizon, though we note the 7% discount rate and the level-percent-of-payroll funding method could lead to contribution volatility.
- Use of regulatory basis of accounting, per state guidelines; however, this is not compliant with generally accepted accounting principles (GAAP). There is little clarity regarding the value of truly available funds, and we view this basis of accounting as a negative credit factor in our institutional assessment framework. For more information on our institutional framework assessment for Kansas municipalities, see "Institutional Framework Assessment: Kansas Local Governments," published Sept. 9, 2024, on RatingsDirect.

Environmental, social, and governance

We evaluated city's environmental, social, and governance factors relative to the economy, financial, and debt factors, and believe all are neutral considerations in our credit analysis.

Outlook

The stable outlook reflects our view that the city's financial performance will remain consistent, supported by a stable local economy, without material change in the debt profile.

Downside scenario

If budget deficits or capital spending cause a material and sustained decline in reserves, we could consider negative rating action.

Upside scenario

Assuming no deterioration to other credit metrics, we could consider a higher rating if the city's local economy expands and diversifies and it improves its financial management policies and practices.

Table 1

McPherson, Kansas--Credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	2.20
Economy	3.0
Financial performance	2
Reserves and liquidity	1
Management	3.00
Debt and liabilities	2.00

Table 2

McPherson, Kansas--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	100	100	96	98
County PCPI % of U.S.	93	93	90	90
Market value (\$000s)	1,053,263	951,994	931,600	918,113
Market value per capita (\$)	74,901	67,700	71,071	70,815
Top 10 taxpayers % of taxable value	7.4	7.5	7.2	--
County unemployment rate (%)	2.4	2.0	1.9	2.2
Local median household EBI % of U.S.	93	93	91	--
Local per capita EBI % of U.S.	91	91	95	--
Local population	14,062	14,062	13,108	12,965
Financial performance				
Operating fund revenues (\$000s)	--	11,217	9,749	9,117
Operating fund expenditures (\$000s)	--	10,112	10,161	9,056
Net transfers and other adjustments (\$000s)	--	(368)	326	(226)
Operating result (\$000s)	--	737	(86)	(165)
Operating result % of revenues	--	6.6	(0.9)	(1.8)
Operating result three-year average %	--	1.3	2.0	2.3
Reserves and liquidity				
Available reserves % of operating revenues	--	53.5	54.0	58.7
Available reserves (\$000s)	--	6,005	5,268	5,354
Debt and liabilities				
Debt service cost % of revenues	--	9.8	11.5	17.1
Net direct debt per capita (\$)	1,196	998	1,288	1,526

Table 2

McPherson, Kansas--Key credit metrics (cont.)				
Net direct debt (\$000s)	16,820	14,034	16,888	19,785
Direct debt 10-year amortization (%)	92	--	--	--
Pension and OPEB cost % of revenues	--	5.0	5.0	5.0
NPLs per capita (\$)	--	1,266	1,314	850
Combined NPLs (\$000s)	--	17,802	17,220	11,015

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

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