S&P Global Ratings

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Research Update:

Lake Quivira, KS' Series 2025 GO Bonds Assigned 'AA-' Rating; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to Lake Quivira, Kan.'s proposed $3.65 million series 2025 general obligation (GO) bonds.
- The outlook is stable.
- The rating is based on the application of our criteria, Methodology For Rating U.S. Governments, Sept. 9, 2024.

Rationale

Security

The GO bonds are direct obligations of the city, payable from a continuing ad valorem tax levied without limitation as to rate or amount on all taxable property within its boundaries.

We understand that bond proceeds will refund outstanding temporary notes (privately placed) that were issued to finance improvements to the city's dam and spillway.

Credit highlights

The rating reflects our view of Lake Quivira's affluent residential taxing base and manageable debt burden with limited capital needs and no additional issuance plans. Credit limitations, in our view, include the city's nominally small reserve position and lack of formalized financial policies or practices. Located approximately 15 miles west of downtown Kansas City, the city of Lake Quivira is a mature lakefront residential community; capital needs are limited and primarily include maintenance and operation of the city's three dams and spillway. The city issued temporary notes in 2021 and 2023 to finance approximately $3.5 million in upgrades and land acquisition costs for the spillway project, which it plans to retire with the current bonds.

The city's financial performance has been mixed in the last four years, although net of one-time revenues and expenditures (temporary note proceeds and capital outlay), operations are generally balanced. Operating revenues are primarily derived from property taxes (50%), service station sales from the city-owned gas station (34%), licenses and permits (5%), and fines and fees (2%). The city's two-pump gas station is available for use by residents of the community; officials reports that the station typically produces a net surplus of roughly $45,000-$50,000. Recurring expenditures primarily comprise personnel and service station supply costs, with limited ongoing capital needs. We note that, in addition to general fund cash reserves, the city has available reserves in its capital outlay fund ($244,004 in fiscal 2024) that can support operating expenditures, which somewhat improves our view of reserves and liquidity, although we still consider the reserve position to be nominally small, totaling less than $1 million. City officials plan to repair the parking lot at city hall in the next two to three years, with an estimated cost of $300,000. There is no definitive timeline for this project; officials expect to cash-fund the repairs when surplus operating revenue will accommodate the cost with minimal use of reserves. With stable revenue growth and conservative budgeting, we expect the city will maintain cash reserves at healthy levels relative to operating revenue, but net operating results will be somewhat more mixed than average due to the small size of the budget and plans to cash-fund capital outlay in the near term.

Credit fundamentals supporting the 'AA-' rating include the following credit factors:

- The city's residential taxing base is small though stable, and income metrics are significantly higher than county and national medians. Residents have direct access to employment opportunities in the Kansas City metropolitan statistical area, supporting the relative affluence of the community.
- Operating performance is mixed in the last four years, primarily due to capital spending and temporary note issuance related to the city's dam and spillway repair project. For fiscal 2025, the city adopted a slight deficit budget, although as of June 30 (50% of fiscal year), revenues are outpacing budgeted levels, primarily due to positive variances in property and sales taxes, building permit fees, and service station revenue. Officials do not expect any material changes to assumptions in the fiscal 2026 budget, outside of the new 10 mill levy to accommodate debt service payments on the current bonds.
- Revenue and expenditure assumptions are informed by historical data and trend analysis, and the city partners with third-party vendors to assist in forecasting expenditures for the coming year. Council reviews monthly budget-to-actual reports and can address budget variances at any time. The city lacks long term financial or capital planning, and does not have formalized policies for debt management, reserves, or investments; however, it maintains compliance with state guidelines. Although most financial policies and practices are not formalized or widely communicated, management maintains conservative assumptions and generally balanced operations. We note that cybersecurity policies and practices are in line with those of peers.
- We expect fixed costs for debt service will increase with the current issuance, but remain manageable at approximately 15% of total governmental revenue, based on fiscal 2024 audited figures. We do not view pension and other postemployment benefits contributions as near-term sources of budgetary pressure, as contributions to the city's Kansas Public Employees Retirement System plan are a small portion of the total budget, and not expected to increase materially in the near term.
- For more information about the institutional framework assessment for Kansas local governments, see Institutional Framework Assessment: Kansas Local Governments, Sept. 9, 2024.

Environmental, social, and governance

We view Lake Quivira's environmental social and governance factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that the city will maintain balanced operations, supported by conservative budgeting practices and significant revenue-raising flexibility, but that the debt burden and nominally thin reserve position will remain credit limitations during the two-year outlook horizon.

Downside scenario

We could lower the rating if cash-basis reserves are depleted and maintained at levels we no longer view as comparable with those of peers, and management is unable to articulate a credible plan to restore them.

Upside scenario

All other credit factors remaining stable, we could raise the rating if cash reserves are consistently maintained at stronger levels, both nominally and as a percentage of the operating budget, and if our view of financial policies and practices improves.

Lake Quivira, Kansas--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.66
Economy	1.0
Financial performance	3
Reserves and liquidity	3
Management	3.30
Debt and liabilities	3.00

Lake Quivira, Kansas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	140	--	140	139
County PCPI % of U.S.	147	--	147	147
Market value ($000s)	298,799	275,055	245,763	226,892
Market value per capita ($)	277,436	255,390	228,192	204,776
Top 10 taxpayers % of taxable value	5.6	--	--	--
County unemployment rate (%)	3.3	3.3	2.7	2.4
Local median household EBI % of U.S.	188	--	188	219
Local per capita EBI % of U.S.	194	--	194	222
Local population	1,077	--	1,077	1,108
Financial performance				
Operating fund revenues ($000s)	--	2,299	4,460	1,993

Lake Quivira, Kansas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Operating fund expenditures ($000s)	--	3,342	3,063	2,086
Net transfers and other adjustments ($000s)	--	(40)	(273)	--
Operating result ($000s)	--	(1,083)	1,124	(93)
Operating result % of revenues	--	(47.1)	25.2	(4.7)
Operating result three-year average %	--	(8.9)	--	--
Reserves and liquidity				
Available reserves % of operating revenues	--	25.5	37.4	27.3
Available reserves ($000s)	--	587	1,669	545
Debt and liabilities				
Debt service cost % of revenues	--	--	--	--
Net direct debt per capita ($)	3,394	3,260	3,260	949
Net direct debt ($000s)	3,655	3,511	3,511	1,051
Direct debt 10-year amortization (%)	51	100	100	100
Pension and OPEB cost % of revenues	--	--	--	--
NPLs per capita ($)	--	511	439	316
Combined NPLs ($000s)	--	550	473	350

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. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$3.655 mil GO bnds ser 2025 dtd 09/04/2025 due 12/01/2040	
Long Term Rating	AA-/Stable
New Rating	
Local Government	
Lake Quivira, KS Unlimited Tax General Obligation	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.