Research Update:

Valley Center, KS Series 2025-1, 2025-2 General Obligation Bonds Rated 'AA-'; Outlook Is Stable

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Primary Contact

Lauren Levy
Englewood
1303-721-4956
lauren.levy
@spglobal.com

Secondary Contact

Allie Jacobson
Englewood
303-721-4242
allie.jacobson
@spglobal.com

Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to Valley Center, Kan.'s proposed $27.4 million series 2025-1 general obligation (GO) bonds and its $935,000 series 2025-2 taxable GO bonds.
- At the same time, we affirmed our 'AA-' rating on the city's GO bonds outstanding, and our 'SP-1+' short-term rating on the city's temporary notes outstanding.
- The outlook on the long-term rating is stable.

Rationale

Security

The city's full-faith-and-credit pledge, including its ability to levy ad valorem property taxes without limitation as to rate or amount, secures the notes and GO debt outstanding.

Several of Valley Center's GO bonds are also partially payable from special assessments levied on the properties benefitting the projects financed with note proceeds. If revenue from special assessments is insufficient to cover debt service requirements, from ad valorem taxes levied without limitation as to rate or amount on all taxable property in the city. Despite the dual pledge, we rate to the strength of the GO pledge due to the lack of sufficient information to rate the special assessment pledge. The short-term rating reflects our high-investment-grade, long-term rating on Valley Center and its low market risk profile. In our view, and pursuant to our bond anticipation notes criteria, we have assessed the city's market risk as low due to its strong market access, information availability, and authorization to issue long-term takeout debt.

We understand that the series 2025 bond proceeds will provide long-term financing to retire several series of temporary notes outstanding.

Credit highlights

The rating reflects our view of Valley Center's favorable location approximately 15 miles north of Wichita, with direct access to the city via Interstate 135. The regional economic base centers on manufacturing, particularly for the aerospace sector. Due to its proximity to Wichita, there is strong demand for housing, driving robust levels of residential construction. New development has contributed to strong growth in taxable value in the past three years, with a notably large 15.2% increase for fiscal 2025. City officials expect assessed value (AV) will continue to grow at similar rates for the next three-to-four years, with multiple residential subdivisions scheduled to come onto the tax rolls in this time. Consistent growth in property taxes, the city's largest source of operating revenue, has contributed to the maintenance of exceptionally stable operating performance, with surplus results since fiscal 2018. While the city typically adopts deficit budgets based on full staffing levels, and conservative assumptions for revenue growth, operations generally outperform the budget due to savings from vacancies and positive revenue variances. Officials expect an operating surplus for fiscal 2025 (year end Dec. 31), and no significant changes to assumptions for fiscal 2026. Given Valley Center's historically strong operating performance, conservative budgeting practices, and expectations for continued AV growth, we expect the city will maintain balanced operations and healthy cash-based reserves during the outlook horizon.

We expect current costs for debt service will increase modestly with the current bonds, but remain manageable as a percentage of total governmental fund revenue due to consistent growth in ad valorem tax revenue, and the availability of special assessment revenue to cover a large portion of the city's debt service costs. The city expects to issue additional GO bonds in the next year to retire the series 2024-1 temporary notes, although we do not expect the issuance of long-term takeout debt will materially influence current debt metrics.

Credit fundamentals supporting the 'AA-' rating include our view of Valley Center's:

- Role as a bedroom community with access to employment in the broad and diverse Wichita metropolitan statistical area (MSA), with slightly below-average incomes relative to those of similarly rated peers nationally.
- Revenue and expenditure assumptions are developed based on the city's static long-term capital improvement plan (CIP)--the current document includes fiscal years 2025-2034--and annually updated long-term financial projections. Discussion of assumptions underlying the long-term forecasts is limited, with relatively straight-line revenue and expenditure projections, which we believe temper the effectiveness of long-term planning in the context of the city's dynamic operating environment. Management provides monthly budget-to-actual reports to the council, and amendments are typically made at fiscal year-end. A formal policy mirroring state guidelines governs the city's investments, and a basic debt management policy outlines acceptable uses and types of debt financing, and a maximum debt-to-AV limitation, which is based on state guidelines. Cash reserves are supported by a formal policy to maintain a minimum of 25% of operating expenditures.
- Consistent surplus operations support maintenance of healthy cash-based reserves, which are robust as a percentage of operating revenue, but currently just more than what we consider to be low-nominal levels ($2 million), when including non-general fund available reserves held in the equipment reserve funds.
- Elevated debt profile, although current costs are somewhat offset by special assessment revenue, which is the intended payment source for much of the city's long-term GO bonds. We expect that debt will remain elevated in the near term, as additional debt might be issued for continued build-out of residential developments, although the debt would likely be supported

by special assessments. We note that the city privately placed a $19 million loan with the Kansas Department of Health and Environment (KDHE) for a water treatment plant expansion. The loan covenants contain no non-standard events of default, but principal acceleration is a permissible remedy to KDHE in an event of default. However, we consider it unlikely that the state agency would exercise this remedy;

- Low pension fixed costs, with retiree benefit liabilities that we do not view as an immediate source of credit pressure for the city, as required contributions currently comprise a small portion of total governmental expenditures.
- For more information on our institutional framework assessment for Kansas local governments, see "Institutional Framework Assessment: Texas Local Governments," Sept. 9, 2024.

Environmental, social, and governance

The rating incorporates our view of the city's environmental, social, and governance factors relative to its economy, management, financial measures, and debt and liability profile, all of which we view as neutral in our credit analysis.

Outlook

The stable outlook reflects our view that the city will maintain balanced operations and healthy cash-based reserves, supported by conservative budgeting practices and economic expansion, but that the leveraged debt profile will remain a credit limitation during the two-year outlook horizon.

Downside scenario

We could lower the rating if additional debt issuance outpaces tax base expansion, resulting in sustained deterioration in financial performance and maintenance of cash reserves at levels that we no longer view as comparable with those of peers, with no credible plan to restore reserves.

Upside scenario

All other credit factors remaining stable, we could raise the rating if economic expansion contributes to sustained improvement in incomes and moderation of the debt burden to levels that we consider comparable with those of higher-rated peers.

City of Valley Center, Kansas--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.57
Economy	3.0
Financial performance	2
Reserves and liquidity	2
Management	2.35
Debt and liabilities	3.50

City of Valley Center, Kansas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	93	--	93	94
County PCPI % of U.S.	88	--	88	88
Market value ($000s)	534,019	494,757	455,632	430,376
Market value per capita ($)	71,931	66,643	61,564	55,683
Top 10 taxpayers % of taxable value	10.2	10.3	10.2	9.4
County unemployment rate (%)	4.2	3.9	3.1	3.1
Local median household EBI % of U.S.	98	98	104	111
Local per capita EBI % of U.S.	76	76	83	89
Local population	7,424	7,424	7,401	7,729
Financial performance				
Operating fund revenues ($000s)	--	4,299	4,045	3,539
Operating fund expenditures ($000s)	--	4,097	3,810	3,429
Net transfers and other adjustments ($000s)	--	(52)	(75)	(102)
Operating result ($000s)	--	150	160	8
Operating result % of revenues	--	3.5	4.0	0.2
Operating result three-year average %	--	2.6	3.5	5.4
Reserves and liquidity				
Available reserves % of operating revenues	--	39.3	38.1	39.0
Available reserves ($000s)	--	1,690	1,541	1,381
Debt and liabilities				
Debt service cost % of revenues	--	9.3	5.5	9.8
Net direct debt per capita ($)	13,052	9,239	7,637	3,918
Net direct debt ($000s)	96,895	68,587	56,522	30,286
Direct debt 10-year amortization (%)	79	88	91	--
Pension and OPEB cost % of revenues	--	1.0	1.0	1.0
NPLs per capita ($)	--	587	629	265
Combined NPLs ($000s)	--	4,361	4,654	2,049

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$0.935 mil taxable GO bnds ser 2025-2 due 12/01/2041	
Long Term Rating	AA-/Stable
US$27.405 mil GO bnds ser 2025-1 due 12/01/2046	
Long Term Rating	AA-/Stable
Ratings Affirmed	
Local Government	
Valley Center, KS Unlimited Tax General Obligation	AA-/Stable

Ratings List	
Valley Center, KS Unlimited Tax General Obligation and Special Assessments	AA-/Stable
Valley Center, KS Unlimited Tax General Obligation and Special Assessments BAN	SP-1+

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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratingsinformation is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.