S&P Global Ratings

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Summary:
Abilene, Texas; General Obligation

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Summary:

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Credit Profile		
US$10.835 mil comb tax and ltd surplus rev certs of bnds ser 2018A dtd 07/01/2018 due 02/15/2039		
Long Term Rating	AA+/Stable	New
US$5.22 mil GO bnds ser 2018 dtd 07/01/2018 due 02/15/2038		
Long Term Rating	AA+/Stable	New
US$1.67 mil comb tax and ltd surplus rev certs of bnds ser 2018B dtd 07/01/2018 due 02/15/2039		
Long Term Rating	AA+/Stable	New
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Abilene, Texas' series 2018 general obligation bonds and series 2018A & 2018B combination tax and revenue certificates of obligation. At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook is stable.

Abilene's series 2018 general obligation bonds, and parity bonds are direct obligations of the city, payable from the levy and collection of a continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property within the city. The series 2018A&B certificates, and parity certificates are a direct obligation of the city, payable from a combination of the levy and collection of a continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property in the city, as well as a limited pledge not to exceed $1,000 of the surplus net revenues of the city's waterworks and sewer system. Texas statutes provide for a maximum ad valorem tax rate of $2.50 per $100 of taxable assessed valuation (AV) for all purposes, including a maximum of $1.50 of the $2.50 for all ad valorem tax obligation debt service. Abilene's total tax rate was well below the maximum at 77.51 cents per $100 of taxable AV, including 21.03 cents for debt service. We do not believe that the taxable base is measurably smaller, and we consider the city's resources fungible. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018, on RatingsDirect), we do not differentiate between the city's limited-tax GO debt and its general creditworthiness.

The proceeds of the series 2018 certificates will fund various citywide capital projects including road and street improvements and municipal building renovations.

The 'AA+' rating reflects our opinion of the following credit factors:

- Weak economy, with projected per capita effective buying income at 81.8% and market value per capita of $49,826, that is gaining advantage from a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our Financial Management

Assessment methodology;

- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.7% of total governmental fund expenditures and 3.2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 10.5% of expenditures and net direct debt that is 80.6% of total governmental fund revenue; and
- Strong institutional framework score.

Weak economy

We consider Abilene's economy weak. The city, with an estimated population of 122,213, is located in Jones and Taylor counties. The city benefits, in our view, from stabilizing institutional influence. The city has a projected per capita effective buying income of 81.8% of the national level and per capita market value of $49,826. Overall, the city's market value grew by 3.9% over the past year to $6.1 billion in 2018. The weight-averaged unemployment rate of the counties was 3.8% in 2016.

Abilene is the seat of Taylor County, and is located 150 miles west of Fort Worth, along the interstate 20 corridor. According to 2018 assessed values (provided by the city), Abilene's assessed value (AV) has grown $1 billion, roughly 20%, dating back to 2013 valuations. Population has followed this trend, though at a slower rate, growing 2% over the same period. Primary economic drivers for the city include U.S. military, higher education, healthcare, and various distribution centers. Dyess Air Force Base, home to the Seventh Wing Air Combat Command, employs about 5,400 military and civilian employees. The city is also home to six higher education institutions, including three private universities that alone combine for a total of approximately 1,600 university employees and a total cumulative enrollment over 6,500 students. Exempt property value from the base alone totals more than $1.8 billion. Total exempt value of other properties, including the Air Force base, is about $3.4 billion. Due to the large presence of military and student residents, in addition to the city's large portion of tax exempt properties, we believe Abilene's economy benefits from multiple stabilizing institutions.

Abilene has seen continuous economic development including several commercial retail businesses opening in the city, especially off interstate 20. The city has also seen residential growth, including the addition of a new subdivision and assisted living center. In 2017, over $110 million in AV growth stemmed from new development alone, and management expects continued growth at a steady rate. We do not anticipate Abilene's economy to weaken over the medium term, given the city's AV growth along with future economic development plans.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

City management's budgeting process has been conservative in recent years, utilizing historical trends for revenue and expenditure assumptions. Management reports budget-to-actuals to the city council on a monthly basis and has the flexibility to make amendments throughout the fiscal year. The city has a formal five-year rolling capital improvement plan that identifies detailed projects and their respective funding sources. Recently, the city created a five-year, long-range financial forecast in conjunction with its adopted budget, that is anticipated to be updated during future budget cycles. Management also has an internal investment policy that mirrors state guidelines, and investment performance and holdings are reported to city council on a monthly basis. Although not formally adopted, management has informal saving targets for refundings and other debt-financing guidelines and limitations. Abilene has a formal general fund balance policy that requires an unassigned fund balance of at least 25%, and if the balance were to fall below 20%, then the city needs to budget and use other operational tools to replenish reserves to the 25% level.

Strong budgetary performance

Abilene's budgetary performance is strong in our opinion. The city had balanced operating results in the general fund of 0.4% of expenditures, and slight surplus results across all governmental funds of 0.8% in fiscal 2017. General fund operating results of the city have been stable over the last three years, with a result of 0.6% in 2016 and a result of 2.2% in 2015.

Abilene continues to display strong budgetary performances, primarily resulting from conservative budgeting and stable operations. The city posted an operating surplus in fiscal 2017, even after adjusting for transfers in and out of the general fund. A key driver of the surplus is due to sales tax revenue collections coming in higher than the city had initially budgeted for, in addition to payroll and utility expenses being under budget. We view Abilene's general fund revenue base as diverse, with sales taxes making up 36% of total general fund revenues and property taxes accounting for 35%. In assessing the city's budgetary performance, we adjusted for annually recurring transfers into the general fund from the utility fund and the city's allocation of hotel/motel tax from its special revenue funds. Additionally, we adjusted for recurring expenditures to non-major enterprise funds and other governmental funds from the city's general fund and for expenditures toward one-time capital projects with the use of debt proceeds.

Officials are expecting an operating surplus for the 2018 fiscal year end. Primary drivers of the potential surplus include conservative budgeting, mainly payroll expenditures coming in below budget, coupled with sales tax revenues coming in at over 5% above budgeted figures. Voters recently approved a referendum for a street use fee that will bring over $6 million in additional revenues beginning in fiscal 2019. Given the city's expectations for fiscal 2018 and the approved revenues from street use fees for fiscal 2019, we anticipate the city's budgetary performance remaining strong.

Very strong budgetary flexibility

Abilene's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 30% of operating expenditures, or $26.9 million. Abilene has historically had very strong budgetary flexibility, with reserves hovering around 30% of expenditures. Due to the operating surplus in fiscal 2017, the city was able to improve its available fund balance by nearly 2% from fiscal 2016. Management noted it does not currently plan to draw on its reserves in the near term. Given expected budgetary performance in fiscal 2018, we expect the city's budgetary flexibility to remain very strong and in compliance with the city's formal fund balance policy.

Very strong liquidity

In our opinion, Abilene's liquidity is very strong, with total government available cash at 33.7% of total governmental fund expenditures and 3.2x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

In our opinion, the city's strong access to external liquidity is by its issuance of GO and certificates of obligation debt over the two decades. Abilene has historically maintained what we consider very strong cash balances, and given our expectation for fiscal 2018, we don't believe its cash position will materially weaken over the next two years. Currently, all of the city's investments comply with Texas statutes and the city's internal investment policy. The majority of investments include certificates of deposit, U.S. government securities, money market accounts, and state pooled accounts, none of which we consider aggressive. The city has one series 2012 issuance of certificates with the Texas Water Development Board, yet the certificates are issued on parity with all other debt issuances of the city, and we do not believe the obligation would put any additional or extraordinary stress on the city's liquidity position.

Weak debt and contingent liability profile

In our view, Abilene's debt and contingent liability profile is weak. Total governmental fund debt service is 10.5% of total governmental fund expenditures, and net direct debt is 80.6% of total governmental fund revenue. The city has no variable-rate debt or swaps outstanding. The city plans to issue the remaining $6.5 million in GO debt from the 2015 authorization for street maintenance.

Abilene's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.6% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution in 2017. The city participates in the Texas Municipal Retirement System (TMRS), an agent multiemployer public employee retirement system, administered by the state of Texas. Abilene's required pension contribution to TMRS is its actuarially determined contribution, which is calculated at the state level. The TMRS plan maintained a funded level of 88.9%, using the plan's fiduciary net position as a percent of the total pension liability. Abilene has historically made 100% of its required contribution.

The city also administers the Abilene Firemen's Relief and Retirement Fund, which is a single-employer defined benefit pension plan. Contribution rates are contractually set as a percentage of payroll. Abilene fully funded the contractually determined contribution in each of the last three years. Its net pension liability measured $50,512,956 as of September 30, 2017. The plan maintained a funded level of 53.2%, using the plan's fiduciary net position as a percentage of the total pension liability, which we view as weak, though this ratio is up from the prior two fiscal years. Additionally, the pension plan utilizes what we consider as risky actuarial assumptions, including an elevated discount rate of 8% and outdated mortality tables.

Despite the low funding status of the Firemen's Relief and Retirement Fund, the plan is relatively small with just 363 participants and annual contributions currently represent just 2% of total governmental expenditures. The city is in the process of an actuarial evaluation and management intends to formulate a plan to address the liability once the evaluation is complete. One possible solution provided preliminarily by management to lower the funded ratio of the pension plan would be to increase annual contributions, we will continue to monitor the funded levels of the plan going forward to address the liability and to what extent it might create budgetary challenges.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our expectation that Abilene continue to display strong budgetary performance and will likely maintain its very strong reserves and liquidity, while the city's debt profile will remain weak. As such, we do not expect to change the rating in the next two years.

Downside scenario

We could lower the rating if any deterioration in budgetary performance were to deteriorate causes the city to draw on its very strong reserve position or if the city fails to address its growing unfunded pension liability, mainly related to its firefighters plan. We could also lower the rating if there is any material weakening of any key credit factor, including debt or financial metrics.

Upside scenario

We could raise the rating if the city were to continue to see economic development, leading to improvement in wealth and income levels comparable to higher rated peers, coupled with significant improvement in the Firemen's Relief and Retirement Fund funding ratio.

Ratings Detail (As Of June 1, 2018)		
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of June 1, 2018) (cont.)		
Abilene GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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 www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.