Abilene, Texas

New Issue Report

Ratings

Long-Term Issuer Default Rating	AA+
New Issue	
General Obligation Refunding Bonds, Series 2017	AA+
Outstanding Debt	
General Obligation Bonds	AA+
Combination Tax and Revenue Certificates of Obligation	AA+

Rating Outlook

Stable

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New Issue Summary

Sale Date: Negotiated sale during the week of Nov. 27, 2017

Series: $34,045,000 General Obligation (GO) Refunding Bonds, Series 2017

Purpose: Refund outstanding debt for interest cost savings.

Security: GO bonds are payable from an annual unlimited property tax levy.

Analytical Conclusion

The 'AA+' Issuer Default Rating (IDR) and GO bond rating reflects Abilene's superior financial resilience and low liability burden. These metrics, as well as the city's role as a regional hub, help offset concern over its reliance on federal employment at Dyess Air Force Base (AFB).

Abilene is the commercial, educational and healthcare hub of west-central Texas. The estimated 2015 population is over 120,000, including about 5,400 military and civilian personnel stationed at Dyess AFB. The city is home to two public hospitals and six higher education institutions.

Key Rating Drivers

Revenue Framework: 'aaa'
The city's independent legal ability to raise operating revenues is ample, and growth prospects for general fund revenues are solid.

Expenditure Framework: 'aa'
Fitch expects expenditure growth to trend in line with to slightly above revenue growth. The city's spending flexibility incorporates moderate carrying costs and strong management control over work force spending.

Long-Term Liability Burden: 'aaa'
The long-term liability burden is modest and is expected to remain low based on current debt plans and pension funding trends.

Operating Performance: 'aaa'
Abilene derives significant financial flexibility from its control over revenues and spending (inherent budget flexibility) supplemented by healthy operating reserves. Fitch expects conservative budget practices will maintain the city's strong financial position.

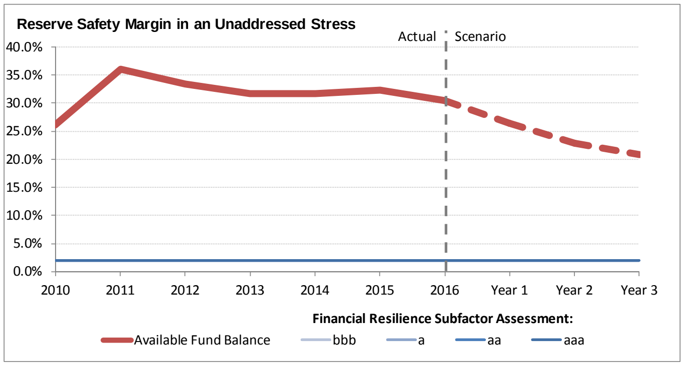
Rating Sensitivities

Shift in Fundamentals: The IDR is sensitive to material shifts in the city's strong revenue and expenditure flexibility and operating performance, which Fitch expects the city to maintain throughout economic cycles.

Abilene (TX)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

The city's financial resilience is derived from robust revenue control and expenditure flexibility. In addition, the city maintains high reserves ($26 million, or 31% of spending, at fiscal 2016 year-end). In an economic downturn scenario, Fitch expects the city would experience a modest level of revenue volatility and utilize its superior inherent budget flexibility to maintain reserves consistent with an 'aaa' assessment level.

Based on historical results, Fitch would expect a moderate economic downturn to result in a modest decline in revenues in the first year of a downturn, followed by a gradual rebound; Fitch would expect the city's financial position to remain solid throughout the economic cycle.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	2.4%	3.6%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2010	2011	2012	2013	2014	2015	2016	Year 1	Year 2	Year 3
Total Revenues	67,104	73,195	75,057	76,154	79,139	81,195	82,491	81,666	83,626	86,636
% Change in Revenues	-	9.1%	2.5%	1.5%	3.9%	2.6%	1.6%	(1.0%)	2.4%	3.6%
Total Expenditures	66,324	67,336	69,053	74,325	76,056	78,412	81,778	83,414	85,082	86,783
% Change in Expenditures	-	1.5%	2.5%	7.6%	2.3%	3.1%	4.3%	2.0%	2.0%	2.0%
Transfers In and Other Sources	2,186	2,943	2,427	2,974	3,060	3,133	3,818	3,780	3,871	4,010
Transfers Out and Other Uses	1,671	2,281	7,806	5,269	5,505	4,928	4,963	5,062	5,164	5,267
Net Transfers	515	662	(5,379)	(2,295)	(2,445)	(1,795)	(1,145)	(1,282)	(1,293)	(1,257)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	1,295	6,521	625	(466)	638	988	(432)	(3,030)	(2,749)	(1,404)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	1.9%	9.4%	0.8%	(0.6%)	0.8%	1.2%	(0.5%)	(3.4%)	(3.0%)	(1.5%)
Unrestricted/Unreserved Fund Balance (General Fund)	17,772	25,097	25,712	25,212	25,856	26,867	26,427	23,397	20,648	19,244
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	17,772	25,097	25,712	25,212	25,856	26,867	26,427	23,397	20,648	19,244
Combined Available Fund Bal. (% of Expend. and Transfers Out)	26.1%	36.1%	33.5%	31.7%	31.7%	32.2%	30.5%	26.4%	22.9%	20.9%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	6/8/17
AA+	Revised	Stable	4/30/10
AA	Assigned	Stable	8/05/09

Credit Profile

Abilene is located 150 miles west of Fort Worth, along Interstate 20. The city's primary employment sectors are government, education, healthcare and retail; the city serves an estimated retail base population of about 300,000. The city has limited exposure to regional activity in the oil and gas sector, primarily through the sector's impact on Abilene's retail sales. As the city's largest employer, Dyess AFB plays a key role in the local economy. A significant reduction of troops or activity at the base would materially impact the economic profile.

The city's tax base is fairly diverse with recent investments in the healthcare, retail and light industrial sectors. Taxable assessed value (TAV) has grown at a steady rate, even during the recession. The city's higher education sector, which includes three universities, has an aggregate enrollment over 12,000, or about 10% of the city's population.

Revenue Framework

Sales taxes provide nearly 37% of the city's operating revenues, followed by property taxes (35%) and franchise taxes (11%). Sales tax collections grew by a strong compound annual rate of 3.6% from fiscal years 2005–2015. However, sales tax receipts declined by 3.5% in fiscal 2016, reflecting both a temporary project-related bump in prior years and slowed oil and gas activity in the region surrounding Abilene. The city projects sales tax receipts increased modestly by 1.9% in fiscal 2017.

General fund revenues grew by a compound annual rate of 2.6% for the 10 years ended in fiscal 2016, exceeding CPI but below U.S. GDP. Fitch expects revenues will continue this growth trend based on recent and planned economic investments.

Abilene's property tax rate is $0.78 per $100 of TAV, providing ample flexibility to raise operating revenues within the constitutional rate cap of $2.50. If a proposed tax rate results in an 8% yoy levy increase (based on the prior year's values), the rate increase may be subject to election if petitioned by voters.

Expenditure Framework

General fund spending is led by public safety, which makes up 55% of the total. Spending growth in that area has trended in line with other categories.

Given the city's modest population growth trend, Fitch does not anticipate pressure on service levels. Fitch expects expenditures to grow in line with or slightly above revenue growth over to the near to medium term.

Abilene's fixed cost burden is moderate, as carrying costs for debt, pensions and other post-employment benefits (OPEB) equal about 13% of governmental expenditures. The city's contracts with police and fire employee groups are flexible in the event of economic downturn, and management has the ability to impose terms unilaterally if an agreement is not reached during Texas's meet-and-confer process of collective bargaining for municipalities. Management also retains a strong degree of control over headcount, wages, benefits and work rules. Abilene has demonstrated the ability to cut spending through attrition and indicates remaining flexibility in personnel spending in the event of a revenue downturn.

Long-Term Liability Burden

The long-term liability burden, including overall tax-supported debt and net pension liabilities, is low at 8% of personal income. Abilene voters approved an $81 million GO bond authorization in 2015, of which $13 million has yet to be issued. The 10-year amortization rate for direct debt is below average at 41%. The overall liability burden is led by overlapping debt, which accounts

Related Research

Fitch Rates Abilene, TX's GO Bonds 'AA+' Outlook Stable (November 2017)'

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2017) for 41% of the total. Abilene's liability burden is expected to remain in the low range based on management's current issuance plans and regional capital needs.

Civilian and certain public safety employees participate in an agent multiple-employer defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Firefighters participate in a single-employer defined benefit pension plan. The aggregate net assets to liabilities ratio is 78.9%. Adjusted to reflect a 6% rate of return assumption, this ratio is lower at 70% and the Fitch-adjusted net pension liability totals $129 million, equal to about 3% of personal income. The city regularly contributes to its plans at the actuarially determined amounts.

Abilene issued $208 million of certificates of obligation in 2013–2016 to fund capital projects in response to drought conditions and adopted annual utility rate increases to support the additional debt service. Despite the rate hikes, the city's rates compare favorably to similarly sized Texas systems. Fitch considers this debt to be self-supporting based on the health of the water and sewer system, but the city's general operations could require further support for debt service if it fails to sufficiently raise rates.

Operating Performance

The city's financial resilience is derived from robust revenue control and expenditure flexibility. For details, see Scenario Analysis, page 2.

The city's conservative budget practices have historically maintained healthy operations, including cutting spending in fiscal 2016 in response to slower sales tax collections. The fiscal 2016 audit reported a modest draw down of fund balance ($432,000, or 0.5% of spending) for one-time spending items, and unaudited results point to balanced results for fiscal 2017. The adopted fiscal 2018 budget is balanced, assumes flat sales tax receipts and funds $1.1 million in pay-go capital outlays.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.