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Summary:

Abilene, Texas; General Obligation

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Credit Profile

US\$34.045 mil GO rfdg bnds ser 2017 dtd 12/01/2017 due 02/15/2035

Long Term Rating

AA+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the City of Abilene, Texas' series 2017 general obligation (GO) bonds. The outlook is stable.

The series 2017 GO bonds are payable from an ad valorem tax, levied within the limits prescribed by law, on all taxable property in the city. The maximum allowable rate in Texas is \$2.50 per \$100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to \$1.50. The city's levy is well below the maximum, at 74.6 cents, 20.1 cents of which is dedicated to debt service. We do not differentiate between the limited tax pledge and the city's general obligation given the significant financial flexibility.

The rating reflects the following credit characteristics:

- Weak economy, with projected per capita effective buying income at 78.2% and market value per capita of \$48,008, though that is advantageously gaining 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 but a slight operating deficit at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 31% of operating expenditures;
- Very strong liquidity, with total government available cash at 40.7% of total governmental fund expenditures and 4.6x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 8.8% of expenditures and net direct debt that is 84.8% 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 121,407, is located in Jones and Taylor counties. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 78.2% of the national level and per capita market value of \$48,008. Overall, the city's market value grew by 3.1% over the past year to \$5.8 billion in 2017. The weight-averaged unemployment rate of the counties was 3.8% in 2016.

Abilene is the seat of Taylor County, located along the interstate 20 corridor roughly equidistant between the cities of Fort Worth and Midland. The city's market value growth has risen steadily over the last 10 years, which is reflective of

its ongoing development. The local economy is anchored by the U.S. military, healthcare, and higher education. Of the top 20 employers, 11 are considered government or non-profits and include Dyess Air Force Base, Hendrick Health Systems, a large mental health facility, a correctional facility, and other hospitals. 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 universities, for a total cumulative enrollment of about 12,000. 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. As a result, we believe Abilene's economy benefits from a stabilizing institution. City officials note the areas along interstate frontages and along highway 351 have experienced commercial development including some national retail chains, restaurants, an auto dealership, and movie theater. The city has experienced 3% to 5% growth in market value in the past several years, which officials believe will continue in the near term. We anticipate stable market value growth over the next several years as modest development continues in and around the city.

The city's resident wealth levels have historically remained below the state and national averages due to the large population of college students. In contrast, Abilene's unemployment rate has historically remained below that of the state and nation.

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.

Highlights of the city's financial practices include a formal five-year capital improvement plan with funding sources identified, which is reviewed annually. Investments are managed by a conservative policy set in state statute and updates are given monthly to the governing body. Abilene does not have a formal debt policy but has informal saving targets for refundings and other debt-financing guidelines and limitations. The city council has adopted a comprehensive general fund balance policy that calls for 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. Abilene's finance department makes conservative revenue and expenditure assumptions based on extensive historical data. The city council receives monthly budget-to-actual reports and also gets formal budget presentations conducted quarterly, along with regular audit presentations. Officials prepare a five-year long range financial forecast in conjunction with the adopted budget.

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, but a slight deficit result across all governmental funds of 1.0% in fiscal 2016.

The city continues to maintain strong budgetary performance, which is aided by stable revenue collections and expenditures. For fiscal 2016 the general fund recorded a modest operating deficit after transfers in and out of the fund. This was mainly due to use of available revenues for capital projects. In fiscal 2016 property taxes accounted for about 35% of general fund revenues and sales taxes made up about 37% of general fund revenues. We adjusted for recurring transfers into the general fund from the utility fund and the city's allocation of hotel/motel tax from its

special revenue funds. We also adjusted for recurring expenditures to non-major enterprise funds and other governmental funds from the city's general fund. Abilene has also funded various capital projects with cash on hand and through bond proceeds that are adjusted in our calculations.

City officials anticipate an operating surplus for fiscal 2017. Positive budget variances were mainly the result of sales tax revenue being over the anticipated amount coupled with payroll, utilities, and fuel/maintenance expenditures being under budget.

Very strong budgetary flexibility

Abilene's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 31% of operating expenditures, or \$26.4 million.

The city's reserve position remains very strong. Positive budget variances favorably affected previous anticipated use of reserves in 2016. Given current year trends, we expect Abilene's budgetary flexibility will 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 40.7% of total governmental fund expenditures and 4.6x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

The city's strong access to external liquidity is demonstrated through its access to the market in the past two decades. Abilene has primarily issued GO-backed bonds in recent years. It has historically had what we consider very strong cash balances, and given our expectation for structurally balanced operations, we do not believe its cash position will deteriorate in the near term. 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, federal government agency investments, 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 8.8% of total governmental fund expenditures, and net direct debt is 84.8% of total governmental fund revenue.

The city has no variable-rate debt nor any swaps outstanding. It has plans for multiple issues in the next 18 to 24 months for various projects including street improvements, infrastructure upgrades, and smart metering for the city's utility system. Part of the current issuance will come from the 2015 authorization. Abilene has no other obligation we believe could strain liquidity in the near term. Other than the city's employee life insurance program, which consists of a modest annual premium, the city provides no other post-employment benefits.

Abilene's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.9% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

The city participates in the Texas Municipal Retirement System (TMRS), which is 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 84%, using the plan's fiduciary net position as a percent of the total pension liability. Abilene has historically made 100% of its required contribution. It also provides pension benefits, through a single-employer defined benefit plan known as the Abilene Firemen's Relief and Retirement Fund for all of its firefighters not covered by the TMRS, and has historically paid the required contribution amount. The city recently paid 106% of its required contribution for the plan. It has also begun discussions to identify ways of increasing the plan's funded status. At Sept. 30, 2016, the plan's fiduciary net position was 52.7%.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The outlook reflects stability in the city's very strong reserves and management's ability to historically and consistently maintain structurally balanced operations. In addition, the outlook reflects our opinion that Abilene's future debt plans will not weaken our view of the city's current debt profile. We do not expect to change the rating over the two-year outlook horizon.

Upside scenario

A higher rating would likely follow an expansion of the economic base as well as improvement in resident wealth levels, coupled with decreasing debt.

Downside scenario

We would likely lower the rating if reserves fall below Abilene's formal fund balance policy, if there's a significant issuance of debt without corresponding taxable growth, or if the city fails to maintain at least balanced operations in its general fund and across all governmental funds.

Related Research

2016 Update Of Institutional Framework For U.S. Local Governments

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