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Ratings

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Summary:

Abilene, Texas; General Obligation

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Credit Profile		
US$40.025 mil GO rfdg and imp bnds ser 2016 dtd 09/01/2016 due 02/15/2036		
Long Term Rating	AA+/Stable	New
US$2.0 mil comb tax and ltd surp rev certs of oblig ser 2016 dtd 09/01/2016 due 02/15/2031		
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 the City of Abilene, Texas' series 2016 general obligation (GO) refunding bonds and improvement bonds and the city's series 2016 combination tax and limited surplus revenue certificates of obligation. At the same time, S&P Global Ratings affirmed our 'AA+' rating on the city's existing GO debt. The outlook is stable.

The series 2016 GO refunding and improvement 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 71.4 cents, 18.3 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. We understand that proceeds from the sale of the bonds will be used to refund a portion of the city's debt outstanding for debt service savings and for various capital projects.

The certificates constitute direct obligations 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 within the city, and a limited pledge (not to exceed $2,500) of surplus net revenues of Abilene's waterworks and sewer system. Despite the dual pledge, we rate the series 2016 certificates based on the strength of the city's GO profile. We understand that proceeds from the sale of the certificates will also be used for general capital purposes.

Abilene existing certificates of obligation bonds are similarly secured by a direct and continuing ad valorem tax, within the limits prescribed by law, and by a various pledges of net utility system and airport revenues. We rate all of these series to the strength of our GO rating on Abilene.

The rating reflects the following credit characteristics, specifically its:

- Weak economy, with market value per capita of $48,530 and projected per capita effective buying income at 80%, but that is benefitting from a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our financial management assessment

(FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 33% of operating expenditures;
- Very strong liquidity, with total government available cash at 39.9% of total governmental fund expenditures and 4.3x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 9.4% of expenditures and net direct debt that is 89.9% 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 120,958, 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 80.0% of the national level and per capita market value of $48,530. Overall, the city's market value grew by 3.8% over the past year to $5.9 billion in 2017. The weight-averaged unemployment rate of the counties was 3.8% in 2015.

The city is located about 150 miles west of Fort Worth and 150 east of Midland. Abilene serves as a regional trade and service center for a 22-county area, and is the city seat of Taylor County. Government employment continues to anchor the economy, but other sectors across the city's regional economy are expanding. Dyess Air Force Base, home to the Seventh Wing Air Combat Command, which is the primary training center for B-1 bombers, employs about 5,400 military and civilian employees. Exempt property value from the base alone totals more than $1.8 billion. As a result, we believe Abilene's economy benefits from a stabilizing institution. The city is also home to six higher education intuitions, including three universities, for a total cumulative enrollment of about 12,000. In addition, activities in the wind energy and healthcare sectors continue to contribute to the Abilene's economy, and city officials indicate that various businesses are expanding. The city's market value has been very stable over the five years, growing by a cumulative 15%. Over the past five years, the city's cumulative market value has grown by more than 15%. We believe this stable growth of 2% to 3% annual growth will continue over the next two years given the stability of the region and current business expansion.

Very strong management

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

We revised our view of the city's FMA to "strong" from "good" because city officials prepared a five-year, long-range financial forecast in conjunction with its adopted budget in 2016. The forecast was done for informational purposes, and we believe city will continue to update this plan annually during each budget cycle. Other highlights of the city's financial practices include a formal five-year capital improvement plan (CIP) 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. The city 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 related 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 is updated regularly as it receives monthly budget-to-actual reports and also gets formal budget presentations conducted quarterly, along with regular audit presentations.

Strong budgetary performance

Abilene's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 2.2% of expenditures, and slight surplus results across all governmental funds of 1.5% in fiscal 2015.

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 nonmajor 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. Accounting for these adjustments, we view the city's budgetary performance as strong, as management has historically demonstrated its ability to maintained balanced operating results in its general fund and across all governmental funds.

Based on year-to-date trends, we believe general fund expenditures will exceed revenues by about $2 million; however, we believe the draw on reserves in fiscal 2016 is intentional as council voted to spend about $2 million of its fund balance on nonrecurring projects given that the city's fund balance was in excess of the city's formal policy. Consequently, we believe Abilene should be balanced operationally in fiscal 2016. Sales tax revenues in fiscal 2016 are currently down 3.7% year-over- year, but city officials were able to make midyear adjustments to its budget to ensure balanced operations. The proposed budget for fiscal 2017 is balanced, and therefore we believe Abilene will continue to maintain what we consider to be strong budgetary performance.

Very strong budgetary flexibility

Abilene's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 33% of operating expenditures, or $26.9 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 33% of expenditures in 2014 and 33% in 2013.

The city's fund balance has exceeded 30% of operating expenditures over the past three years; however, with the planned draw on reserves in fiscal 2016, we estimate that reserves could fall to about 29% of operating expenditures, or $24.9 million. Despite the planned use of fund balance, 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 39.9% of total governmental fund expenditures and 4.3x governmental debt service in 2015. 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 worsen. Currently, all of the city's investments comply with Texas statutes and the city's internal investment policy. At year-end fiscal 2015, the majority of the city's investments included certificates of deposit, federal government agency investments, money market accounts, and state pooled accounts, none of which we consider aggressive.

Weak debt and contingent liability profile

In our view, Abilene's debt and contingent liability profile is weak. Total governmental fund debt service is 9.4% of total governmental fund expenditures, and net direct debt is 89.9% of total governmental fund revenue.

Debt supported through the city's enterprise fund has been adjusted in our calculations. The city plans to issue about $11 million of combination tax and revenue bonds for water and sewer utilities in the fall of 2016. The city also has $29.2 million of authorized, but unissued debt from its 2015 election, which we believe will likely be exhausted by 2018, and the capital improvement plan calls for another $2 million of debt to be issued during the summer of 2017. We estimate that the approximately $42 million that may be issued over the next two years should not should not affect our view of the city's debt profile. Further, we note that Abilene's overall net debt is 3.3% of market value. All else equal, if this ratio fell below 3%, our view of the debt profile could improve.

Abilene's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.9% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

The city participates in the Texas Municipal Retirement System (TMRS), which is administered by the State of Texas. Abilene's required pension contribution into TMRS is its actuarially determined contribution, which is calculated at the state level, based on an actuary study. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, the city's net pension liability was measured as of Dec. 31, 2014, and was $9.9 million. The TMRS plan maintained a funded level of 96.3%, using the plan's fiduciary net position as a percent of the total pension liability. For additional details on GASB 67 and 68, see our report "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect. The city 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 fire fighters not covered by the TMRS, and has historically contributed the required contribution amount.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our opinion that we will not change the rating over the two-year outlook horizon given our expectation that management will continue to maintain very strong reserves and given management's ability to historically 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.

Upside scenario

A higher rating would likely follow an expansion of the economic base, all else being equal, which enables the city's wealth and income levels to be comparable to rated higher peers and decreasing debt levels.

Downside scenario

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

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 15, 2016)		
Abilene comb tax and surplus rev certs of oblig		
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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.