Abilene, Texas

Limited Tax Obligations

Full Rating Report

Ratings

Issuer Default Rating	AA+
General Obligation Refunding and Improvement Bonds, Series 2016	AA+
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2016	AA+
Outstanding Debt	
General Obligation Bonds	AA+
Certificates of Obligation	AA+

Rating Outlook

Stable

Related Research

Fitch Rates Abilene, TX's GO Bonds and COs 'AA+'; Outlook Stable (August 2016)

Abilene, Texas (August 2015)

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New Issue Details

Sale Information: $40,025,000 General Obligation Refunding and Improvement Bonds, Series 2016 and $2,000,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2016, via negotiation on Aug. 24 .

Security: An ad valorem tax levied on all taxable property within Abilene, limited to $2.50 per $100 of taxable assessed valuation (TAV). The certificates of obligation (COs) are additionally payable from surplus revenues from the city's waterworks and sewer system, limited to $2,500 per year.

Purpose: General obligation (GO) bond proceeds to fund various public improvements and refund a portion of the city's outstanding obligations for interest savings; CO proceeds to fund public improvements.

Final Maturity: Series 2016 GOs: Feb. 15, 2036; series 2016 COs: Feb. 15, 2031.

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

Key Rating Drivers

Economic Resource Base: Abilene is the commercial, educational, and healthcare hub of west-central Texas. The estimated 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.

Revenue Framework ('aaa' factor assessment): Revenue growth prospects are strong, and the city has ample independent legal ability to raise operating revenues.

Expenditure Framework ('aa' factor assessment): 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' factor assessment): The long-term liability burden is modest and expected to remain low based on current debt plans.

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

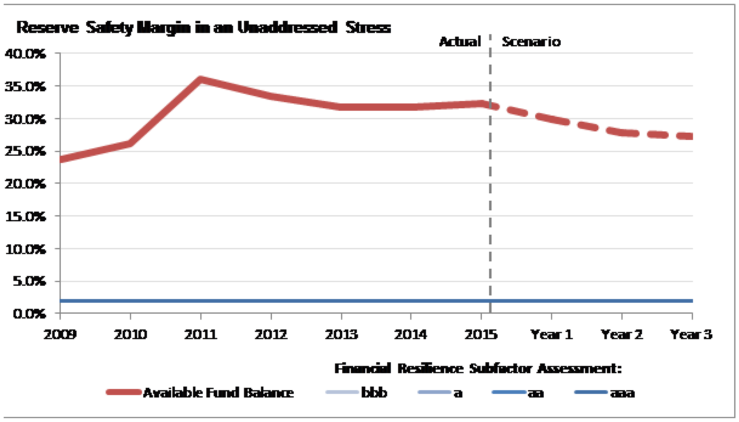
Rating Sensitivities

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. 1.10 2016/06/22



Analyst Interpretation of Scenario Results:

The city's financial resilience is derived from robust revenue control and expenditure flexibility, and minimal historical revenue volatility. In addition, the city maintains high reserves ($27 million, or 32% of spending, at fiscal 2015 year-end) that Fitch expects to be maintained in compliance with the city's 25% of spending fund balance policy throughout the economic cycle, well above Fitch's 'aaa' assessment level.

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		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	67,543	67,104	73,195	75,057	76,154	79,139	81,195	80,383	82,285	85,232
% Change in Revenues	-	(0.6%)	9.1%	2.5%	1.5%	3.9%	2.6%	(1.0%)	2.4%	3.6%
Total Expenditures	68,749	66,324	67,336	69,053	74,325	76,056	78,412	79,980	81,579	83,211
% Change in Expenditures	-	(3.5%)	1.5%	2.5%	7.6%	2.3%	3.1%	2.0%	2.0%	2.0%
Transfers In and Other Sources	2,408	2,186	2,943	2,427	2,974	3,060	3,133	3,101	3,175	3,288
Transfers Out and Other Uses	1,646	1,671	2,281	7,806	5,269	5,505	4,928	5,027	5,127	5,230
Net Transfers	762	515	662	(5,379)	(2,295)	(2,445)	(1,795)	(1,925)	(1,952)	(1,941)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(444)	1,295	6,521	625	(466)	638	988	(1,522)	(1,247)	79
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(0.6%)	1.9%	9.4%	0.8%	(0.6%)	0.8%	1.2%	(1.8%)	(1.4%)	0.1%
Unrestricted/Unreserved Fund Balance (General Fund)	16,683	17,772	25,097	25,712	25,212	25,856	26,867	25,345	24,098	24,178
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	16,683	17,772	25,097	25,712	25,212	25,856	26,867	25,345	24,098	24,178
Combined Available Fund Bal. (% of Expend. and Transfers Out)	23.7%	26.1%	36.1%	33.5%	31.7%	31.7%	32.2%	29.8%	27.8%	27.3%

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

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	8/17/16
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 of about 300,000. The city has limited exposure to 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 retail and light industrial sectors. TAV has grown at a steady rate, even during the recession.

Revenue Framework

Sales taxes provide nearly 40% of the city's operating revenues, followed by property taxes (33%) and franchise taxes (11%). Sales tax collections grew at a strong compound annual rate of 3.9% during the last decade. However, year-to-date receipts in fiscal 2016 were 3.7% lower than the same period in fiscal 2015. The year-over-year decline reflects both a temporary project-related bump in prior years and slowed oil and gas activity in the region surrounding Abilene.

General fund growth exceeded both U.S. GDP and CPI during the 10 years through fiscal 2014. Fitch expects strong revenue growth will continue to outpace that of the U.S. economy over time based on recent and planned economic investment.

Abilene's property tax rate is $0.71 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% year-over-year levy increase (based on the prior year's values), the rate increase may be subject to election if petitioned by voters. City management has kept the tax rate flat in recent years.

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 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 16% of governmental expenditures. The city's contracts with police and fire department 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 an 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 $519 million (6% of personal income). Abilene voters approved an $81 million GO bond authorization in 2015, which will be about 50% complete with this offering. This issuance and planned debt are projected to require an additional tax rate increase of $0.05 per $100 of TAV as the remaining bonds are issued through 2018, assuming flat TAV. Abilene's liability burden

Related Criteria

U.S. Tax-Supported Rating Criteria (April 2016) is expected to remain in the low range based on 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 net pension liability of both plans equals a modest 1.4% of personal income, and the city regularly contributes to plans at the actuarially determined amounts.

Abilene issued $187 million of COs in 2013–2015 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 a failure to raise rates sufficiently could expose the city's general operations to the potential need to support debt service.

Operating Performance

The city's financial resilience is derived from robust revenue control and expenditure flexibility and minimal historical revenue volatility. 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. Officials project a $2 million use of general fund balance for one-time spending items in fiscal 2016 and expect to adopt a balanced budget for fiscal 2017. The budget assumes flat sales tax revenue; further declines in receipts would require additional spending cuts.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.