

City of Kyle, Texas

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Credit Profile

US\$22.725 mil Combination Tax and Revenue Certificates of Obligation, Series 2008
dated 04/01/2008, due 05/15/2033

Long Term Rating	A+ / Stable	New
Outstanding GO Bonds, Various Series, (AMBAC)		
Unenhanced Rating	A+ (SPUR) / Stable	Upgraded
Outstanding Combination Tax and Revenue Certificates of Obligation, Series 2000, (FGIC)		
Unenhanced Rating	A+ (SPUR) / Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its Standard & Poor's underlying rating (SPUR) on Kyle, Texas' general obligation (GO) debt two notches to 'A+' from 'A-' based on the city's steady property tax base growth, strong financial position, and expanding economy. The outlook is stable.

Standard & Poor's also assigned its 'A+' standard long-term rating, and stable outlook, to the city's series 2008 combination tax and revenue certificates of obligation.

The ratings reflect the city's:

- Inclusion in the strong Austin, Texas metropolitan statistical area (MSA) economy and labor market;
- Expanding residential property tax base; and
- Consistently stable financial operations with strong reserves.

The ratings are constrained by the city's:

- Moderate overall net debt burden, combined with rapid growth, which could pressure operations and capital needs; and

- Plans to issue additional debt.

An ad valorem tax levied against all taxable property within the city and a subordinate-lien pledge of city water and sewer system net revenues secure the certificates. Officials will use certificate proceeds to finance road and street improvements and fund the construction of water and wastewater system infrastructure.

Kyle is in Hays County, 15 miles south of Austin. Kyle residents have strong access to Austin's deep and diverse employment base via Interstate 35. Recent property tax base growth has been robust. Kyle's affordability compared with the greater Austin area has driven growth. Assessed value (AV) has increased by 17% to \$1.1 billion for fiscal 2008 compared with fiscal 2007 AV. AV growth has increased by 30.4% annually over the past five years. Market value, a direct indication of wealth, is an adequate \$37,290 per capita.

Wealth levels have improved as more workers employed in Austin migrate into the city. City median household income indicators are a strong 125% and 122% of state and national levels, respectively. City unemployment averaged a low 4.2% in 2006, below state and national rates.

Kyle's financial performance and position have been strong over the past five years. Management has consistently reported ending fund balances at more than 35% of operating expenditures. The city closed fiscal 2006 with a \$739,000 surplus that management attributes to sales tax revenue growth; therefore, officials reported a \$3.89 million ending general fund balance, or a high 63.7% of total expenditures.

Unaudited fiscal 2007 results indicate the city decreased the fund balance by \$50,000 due to one-time capital projects; this decreased the ending general fund balance to a still-high \$3.84 million. Property (42%) and sales (28%) taxes and building permits (20%) are the city's primary revenue generators. The fiscal 2008 budget includes balanced operations, and management does not plan to draw on reserves. Based on year-to-date revenues and expenditures, management is projecting a small surplus due to conservative budgeting. The fiscal 2008 tax rate of 27 cents per \$100 of AV is low compared with other regional tax rates.

Standard & Poor's deems Kyle's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. In terms of revenue and expenditure assumptions, management prepares its budgets based on historical analysis and a revenue-forecasting model. Officials monitor the budget quarterly and make adjustments as needed. Management maintains a written in-depth and conservative investment policy with strong internal controls, as well as quarterly updates with the governing body. A formal reserve policy targets reserves of at least 25% of operating expenditures for emergency purposes. The city lacks policies in some areas, including long-term financial planning and debt. Management uses debt, impact fees, and water and sewer revenues to fund its five-year capital improvement plan (CIP).

After accounting for self-support from the city's water and sewer fund, the overall net debt burden is a moderate 5.6% of market value and \$2,089 per capita. Overall debt includes applicable debt carried by Hays Consolidated Independent School District, which accounts for 37%. Amortization is below average with officials retiring 35% of debt over 10 years. Officials are considering a bond election in November 2009 to address quality-of-life issues.

Outlook

The stable outlook reflects our expectation that the city's participation in Austin's diverse employment base and continued property tax base growth will allow management to sustain its solid financial position under likely growth pressures. Strong AV growth, wealth levels that remain average or better, and management's maintenance of strong fund balance levels support the rating.

Economy: Tax Base Growth, Diversification Still Persist

Kyle's estimated population of 29,300 has doubled since fiscal 2004. Residential growth persists with the average price of a new home estimated at roughly \$130,000-\$140,000. The city has a substantial amount of land available for residential and commercial development. Officials are projecting population to total 45,000 by 2020. Due to the city's residential nature, the tax base is not concentrated with the 10 leading taxpayers — including utilities, developers, and retail centers — accounting for a low 3.5% of total AV.

Development continues to occur along the I-35 corridor, where developers have constructed several new retail centers. In 2006, The Home Depot Inc. opened a location in the city. H.E. Butt Grocery Co.-Plus' (H.E.B.-Plus), a regional grocery store chain, opening in summer 2007 boosted sales tax revenues. In addition, RSI Inc.'s, a maker of military electronics, opening in January 2008 added about 75 jobs to the employment base; when the building is at full capacity, the company will employ up to 200. Kyle Market Place II is currently under construction with the first phase of mixed-use development completed in summer 2009. In addition, the city continues to see strong residential growth despite the economic slowdown.

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