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Ratings

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Summary:

Kyle, Texas; General Obligation

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Summary:

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Credit Profile		
US$8.37 mil GO rfdg bnds ser 2016 due 02/15/2031		
Long Term Rating	AA-/Positive	New
Kyle GO		
Long Term Rating	AA-/Positive	Affirmed

Rationale

S&P Global Ratings revised the outlook on its 'AA-' long-term rating and underlying rating (SPUR) on Kyle, Texas' general obligation (GO) debt to positive from stable. The outlook revision reflects our opinion of the city's economic expansion and property tax base growth, which has resulted in improved wealth indicators, particularly market value per capita.

At the same time, S&P Global Ratings assigned its 'AA-' rating to the city's series 2016 GO refunding bonds, and affirmed its 'AA-' long-term rating and SPUR on the city's GO debt.

A limited ad valorem tax levy on all taxable property within the city secures the bonds. Given the city's ad valorem tax levy of 58 cents per $100 of assessed value (AV), we believe there is significant tax flexibility well below the maximum allowable tax rate of $2.50 per $100 of AV. We rate the bonds under our GO criteria because we do not differentiate between the city's limited- and unlimited-tax pledges, due to its tax rate flexibility, very strong liquidity, and high investment-grade debt.

We understand officials intend to use series 2016 proceeds to refund some existing debt for savings.

The rating reflects our view of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good 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 60% of operating expenditures;
- Very strong liquidity, with total government available cash at 85.1% of total governmental fund expenditures and 3.9x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 21.8% of expenditures and net direct debt that is 335.1% of total governmental fund revenue, as well as high overall net debt at greater than 10% of market value; and
- Strong institutional framework score.

Adequate economy

We consider Kyle's economy adequate. The city, with an estimated population of 34,413, is located in Hays County in the Austin-Round Rock MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 92.2% of the national level and per capita market value of $55,213. Overall, the city's market value grew by 12.1% over the past year to $1.9 billion in 2016. The county unemployment rate was 3.4% in 2015.

Kyle's location, roughly 15 miles south of Austin and eight miles north of San Marcos, and relative affordability compared to the rest of the greater Austin-Round Rock MSA have resulted in healthy commercial and residential development. In aggregate, AV has grown nearly $507 million since fiscal 2011, or 36.4%. Moreover, major roadway improvements along the I-35 corridor resulting in better traffic flow, coupled with a growing population continue to support strong growth in the city's commercial and retail sales tax revenues. The city's property tax base is diverse, with the top 10 taxpayers accounting for slightly more than 8% of the total tax base. Management expects residential and commercial retail development to continue for the medium term and to support similar growth trends in taxable value.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key practices include management's:

- Use of three to five years of historical trends and a revenue forecasting model during the budget process;
- Quarterly budget updates of year-to-date performance provided to elected officials;
- Five-year rolling capital improvement plan with identified funding sources;
- Formal investment management policy which mirrors Texas Public Funds Investment Act with quarterly updates of performance and holdings to city council;
- Formal debt management policy with basic provisions; and
- Formal policy, as outlined in the city charter, of maintaining 25% expenditures in the general fund, which it is currently exceeding.

The city lacks a long-term financial plan.

Strong budgetary performance

Kyle's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 8.8% of expenditures, and slight surplus results across all governmental funds of 0.8% in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

The city's strong budgetary performance is supported by management's conservative budgetary practices, which often result in actual operations exceeding budgeted expectations. For fiscal 2015, actual operations were nearly $3.5 million better than budgeted as a result of outperforming sales and property tax revenues, as well as achieved savings. For fiscal 2016, the city has budgeted for balanced operations in the general fund, but year-to-date actual operations indicate it will finish with a $1 million surplus at fiscal year-end. Conservatively, we anticipate minor structural deterioration from the city's very strong fiscal 2015 performance given subsequent-year budgeted expectations.

However, we anticipate the current and subsequent fiscal years' operations will sustain strong budgetary performance, supported by growth in revenues and conservative spending practices.

Very strong budgetary flexibility

Kyle's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 60% of operating expenditures, or $10.8 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The city has historically maintained very strong budgetary flexibility with reserves in excess of 30% of operations. For fiscal 2016, management is budgeting to maintain available reserves at current levels; it does not plan to draw on reserves significantly over the next two fiscal years. We believe Kyle will likely maintain very strong budgetary flexibility due to its formal fund balance policy of maintaining available reserves in excess of 25% of operational expenditures.

Very strong liquidity

In our opinion, Kyle's liquidity is very strong, with total government available cash at 85.1% of total governmental fund expenditures and 3.9x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary. We expect liquidity to remain very strong over the next few fiscal years due to projections for fiscal 2016. The city has demonstrated strong access to capital markets with several GO-supported debt issues over the past 20 years. Currently, investments comply with state statutes and we do not consider them aggressive. At fiscal year-end 2015, investments were in safe local government investment pools, U.S. agency securities, and certificates of deposit.

Very weak debt and contingent liability profile

In our view, Kyle's debt and contingent liability profile is very weak. Total governmental fund debt service is 21.8% of total governmental fund expenditures, and net direct debt is 335.1% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 12% of market value. We expect that ongoing growth related capital needs will likely require the issuance of additional debt over the next few years, which will likely keep debt ratios elevated. We understand the city plans to issue approximately $10 million of additional debt for capital projects within the next two years. We believe future tax base growth will continue support additional debt needs.

Kyle's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 3% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015. The city provides pension benefits for all of its full-time employees through Texas Municipal Retirement System (TMRS), a multiemployer, defined-benefit pension plan. The city has historically paid its annual pension cost in full. On Dec. 31, 2014, the date of the most recent actuarial valuation, the plan was 78% funded. Kyle's OPEB for retirees are paid on a pay-as-you-go basis. (For additional details on GASB Nos. 67 and 68, see the 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.)

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The positive outlook reflects our opinion that continued economic expansions and tax base growth could further improve the city's wealth indicators, such as market value per capita, to a level more commensurate with its higher-rated peers during the two-year outlook period. We could revise the outlook back to stable if the city experiences a slowdown in economic growth or if finances deteriorated, resulting in a significant reduction in reserves below the city's formal policy limits.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

Ratings Detail (As Of July 19, 2016)		
Kyle GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Positive	Affirmed
Kyle GO (ASSURED GTY)		
Unenhanced Rating	AA-(SPUR)/Positive	Affirmed
Kyle GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Positive	Affirmed
Kyle GO		
Unenhanced Rating	AA-(SPUR)/Positive	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.