S&P Global
Ratings

RatingsDirect®

Summary:
Kyle, Texas; Tax Increment

Primary Credit Analyst:
Misty L Newland, Seattle + 1 (415) 371 5073; misty.newland@spglobal.com

Secondary Contact:
Jackie Dove, Englewood + 3037214317; jackie.dove@spglobal.com

Table Of Contents

Summary:

Kyle, Texas; Tax Increment

Credit Profile		
US$8.0 mil tax increment rev bnds ser 2023 dtd 04/01/2023 due 08/15/2053		
Long Term Rating	BBB-/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'BBB-' long-term rating to Kyle, Texas' anticipated $8 million tax increment revenue bonds (tax increment reinvestment zone number two), series 2023.
- The outlook is stable.

Security

The bonds are secured by a pledge of 50% of the city's tax increment revenue generated from within the boundaries of the city of Kyle tax increment reinvestment zone number two (TIRZ 2). Under the bond ordinance, the city also pledges a debt service reserve (DSR) equal to maximum annual debt service (MADS). We understand proceeds will fund utility infrastructure and public parks.

Credit overview

The zone is well-positioned within the city, just west of Interstate 35. The city benefits from overflow of the Austin and San Antonio areas, which, combined with high-density new construction, has driven rapid assessed value (AV) growth in the zone. Given the high-density construction, the zone is highly concentrated with residential housing and commercial facilities. Pledged revenue for fiscal 2023 provides strong coverage of pro forma MADS. Given the zone is less than 50% built out, we expect the city will continue to issue additional debt to finance infrastructure.

In our opinion, the rating reflects our assessment of:

- Highly concentrated taxpayer composition, somewhat offset by the taxpayers being multitenant residential and commercial buildings and a moderate volatility ratio;
- Sensitivity analysis that reflects the zone's inability to withstand the loss of the top two taxpayers based on the 1.25x additional bonds test (ABT) and volatility ratio of 0.23; and
- Historical pledged revenue that provides strong coverage of pro forma MADS based on fiscal 2023 pledged revenue, but less than 1.0x from previous years.

Environmental, social, and governance

The rating incorporates our view of the city's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile, which we view as neutral to our credit analysis.

Outlook

The stable outlook takes into consideration issuance of debt that does not over leverage the zone and provides strong MADS coverage. With actual ongoing development to bolster AV and an additional bonds test requiring at least 1.25x MADS coverage, we do not expect the city's additional debt plans would reduce coverage below good levels.

Downside scenario

Should coverage decline below insufficient levels over the next two years, or should taxpayer concentration increase, then we could lower the rating.

Upside scenario

We could consider raising the rating if the pledged revenue performance consistently provides strong coverage of MADS, and concentration does not worsen.

Credit Opinion

Highly concentrated taxpayer composition in a sizable project area with strong prospects for additional tax base growth

The sizable, 1,480-acre zone is less than 50% built out, according to management. The zone is concentrated due to the preponderance of high-density residential and commercial property. The top 10 taxpayers represent 71% of total AV and 93% of incremental AV. The top taxpayers are apartments and multitenant commercial facilities. According to management, multifamily occupancy rates are 93% within the zone, and 97% citywide. Citywide retail occupancy is also about 97%. Plum Creek, with three apartment complexes among the top 10 taxpayers, reported recent occupancy of 95%-98%. A new retirement resort (Sparrow Plum Creek Investors LLC), the eighth-largest taxpayer, reported a 68% occupancy rate. Urban-inspired development is expected to continue with town homes, and mixed-use buildings that house high-density residential and commercial space. We understand 1,300 additional housing units are currently planned. The zone also encompasses several public parks, including the 217,800-square-foot Heros Memorial Park and a park with outdoor dining and a theater. The city in general and the zone benefit from their location along Interstate 35 and overflow from the Austin and San Antonio areas. Incomes in the city are what we consider strong, with a median household effective buying income of 118% of the national level. Total city population is about 48,945.

Strong pro forma debt service coverage, with high sensitivity to taxpayer concentration

The ABT, under the bond ordinance, requires a 1.25x minimum coverage of MADS by pledged revenue for either the most recently completed fiscal year or for pledged revenue billed but not yet received for any 12 consecutive months out of the 15 months immediately preceding the proposed additional bonds. The bond ordinance also requires maintenance of a DSR funded at a minimum of MADS, recalculated annually. The DSR may be funded by cash, surety bond, or insurance (rated at least 'AA-').

Pro forma MADS coverage is strong at about 2.0x. However, given the infancy of the zone and the rapid annual AV growth, historically, revenues would have provided less than 1x MADS coverage just a year ago, in 2022. Pro forma MADS is scheduled to occur in 2024, but annual debt service is level starting in 2025 with pro forma annual debt service ranging between roughly $507,000 and $512,00. We understand the city plans to issue additional zone debt of between $3 million and $5 million in 2024 or 2025. In addition, given the zone is currently less than 50% built out, we would expect additional financing needs could arise in the future for infrastructure needs. Therefore, our analysis focuses more heavily on the 1.25x MADS ABT.

The city council recently extended the expiration date of the zone to December 2057 from 2037. The base value for the zone is $121.4 million (set in 2018) compared to fiscal 2023 AV of about $524 million. Although the zone was just created in 2018, the volatility ratio has quickly improved to a level we consider moderate at 0.23 due to strong development combined with construction of sizable properties, with AV growth of over 300% since inception. The volatility ratio is a measure of the base value to total AV and indicates how sensitive increment revenue is to losses in total AV. We understand the preliminary AV for next year shows an increase of roughly 47%, which would produce over 3x coverage of pro forma MADS. However, the AV is subject to change until final certification.

Our sensitivity analysis of the taxpayer concentration, based on the volatility ratio, indicates the zone could withstand just a 38% decline in AV (or the top three taxpayers) before 2.0x pro forma coverage of MADS falls to 1.0x. Based on 1.25x MADS ABT coverage and volatility ratio of 0.23, the tax base could only withstand 15.4% decline in total AV, or the top taxpayer.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022