S&P Global
Ratings

RatingsDirect®

Summary:
Kyle, Texas; General Obligation

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

Secondary Contact:
Andy A Hobbs, Dallas + 1 (972) 367 3345; Andy.Hobbs@spglobal.com

Table Of Contents

Summary:

Kyle, Texas; General Obligation

Credit Profile		
US$38.0 mil GO bnds ser 2022 dtd 08/01/2022 due 08/15/2042		
Long Term Rating	AA-/Stable	New
Kyle GO		
Long Term Rating	AA-/Stable	Affirmed

Rating Action Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to Kyle, Texas' anticipated $38 million general obligation (GO) bonds, series 2022.
- At the same time, we affirmed our 'AA-' long-term rating and underlying rating (SPUR) on the city's GO and certificates of obligation debt outstanding.
- The outlook is stable.

Security

The bonds and certificates are payable from revenue from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city. We rate the bonds and certificates on par with our view of the city's general creditworthiness, as the tax base supporting the obligations is coterminous with the city, and we see no unusual risks regarding the fungibility of resources or the city's willingness to support the debt.

Texas statutes limit the ad valorem tax rate for home rule cities to $2.50 per $100 of taxable assessed valuation (AV) for all city purposes. Administratively, the state attorney general will permit the allocation of $1.50 of the tax rate for ad valorem tax debt service. In fiscal 2021, the city levies well under the maximum at 50.8 cents per $100 of AV, of which 17.8 cents is attributable to debt service tax rate.

The certificates carry an additional limited pledge of the surplus revenue of the city's waterworks and sewer system in an amount not to exceed $1,000. Given the de minimis pledge, we rate the certificates based on the city's ad valorem pledge.

Proceeds from the sale of bonds will fund construction of a new public safety facility and $1 million for parks design.

Credit overview

The city has benefited from its access to the diverse and expanding Austin-Round Rock metropolitan statistical area (MSA). Due to the combination of a growing tax base and prudent budget management, the city has grown its reserves and maintained them at very strong levels to allow it to cash-fund its growing capital demands. We anticipate continued revenue growth and prudent spending will continue to support very strong reserves. Although we expect additional debt issuance, we do not expect it will be sufficiently supported by the tax base growth; however, we also anticipate it will not constrain performance or budgetary flexibility.

The rating also reflects our view of the city's:

- Adequate economy, with significant tax base growth and a developing small to midsize businesses sector;
- Good financial policies and practices under our Financial Management Assessment (FMA) methodology and strong institutional framework score;
- Adequate budgetary performance and very strong reserves, with the ability to cash-fund some capital outlay; and
- Very weak debt and contingent liability profile, with significant additional debt financing needs to support growth.

Environmental, social, and governance

The rating incorporates our view of 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. We note that recent population increases provide social opportunity for economic growth, but also create the need for additional infrastructure and, potentially, additional debt.

Outlook

The stable outlook reflects our anticipation of the city's ability to continue to meet growth needs and benefit from revenue growth while also containing expenditure growth to maintain a very strong fund balance. In addition, although we expect additional debt issuance, we do not expect it will constrain performance or budgetary flexibility.

Downside scenario

We could lower the rating if Kyle were to experience substantial economic deterioration, or if structural imbalance were to develop, resulting in available fund balance falling below the policy requirement.

Upside scenario

We could raise the rating if the city's economic profile, including growth in per capita market value, and income levels improve to very strong levels. Additionally, we would like to see the city continue to successfully manage its growth-related capital program without compromising its financial position or further weakening its current debt profile.

Credit Opinion

Significant growth expected to continue

Kyle's location, approximately 15 miles south of Austin and eight miles north of San Marcos, and relative affordability compared with the rest of the greater Austin-Round Rock MSA have resulted in healthy commercial and residential development. In aggregate, AV has grown by about 60% between 2018 and 2022. Moreover, major roadway improvements along the I-35 corridor that resulted in better traffic flow, coupled with a growing population, continue to support strong growth in the city's commercial and retail sales tax revenues. Management reports 28 new restaurants opened in the city and Costco is expected to open within the next 12-18 months. Since 2017, the commercial and industrial space has become a growing presence including semiconductor and auto supplier manufacturing. New development trends include a preponderance of mixed-use housing and retail complexes, giving rise to 28 new restaurants and over the last four years a population increase of 30%, according to management.

Good financial policies and practices under our FMA methodology

Highlights include:

- 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 that 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.

We note that it has implemented policies and practices to help mitigate its exposure to cyber security risks.

The institutional framework score for Texas municipalities is strong.

Adequate budgetary performance and very strong reserves, with the ability to cash-fund some capital outlay

Over the past several years, the city operating results have included use of excess revenues and fund balance for transfers to the capital projects and wastewater funds for capital projects. Fiscal year-end Sept. 30, 2021, general fund revenue exceeded expenditures by $12 million. After transfers out of $16.7 million for capital, the city had a small deficit of less than 1% of expenditures. The fiscal 2021 results were better than budgeted due to revenue growth, including in sales taxes, which account for about 30% of general fund revenue. Property taxes are also a major revenue source at about 30%. The fiscal 2022 budget includes a modest surplus of about 2.4% of budgeted expenditures. Based on third-quarter actuals, management expects results to be significantly better. The third-quarter report shows actual revenues on target with the budget and expenditures under budget. While the city currently has no specific plans to draw down reserves, it may use fund balance in excess of its 25% reserve policy to fund capital outlay, which we still consider very strong.

Very weak debt and contingent liability profile

The city's capital plans are large due to the significant growth it is experiencing. The city is considering an additional bond election in November 2022, with potential authorization request for roads and various projects in excess of $200 million depending on the city council's targeted tax rate. Firm debt issuance plans include $8 million of certificates of obligation for street and road improvements in October 2022, which the city intends to repay with tax increment zone revenue.

Pensions and other postemployment benefits (OPEB) are not a source of credit pressure

We expect pension costs will increase in the future given recent volatility in the markets and the amortization and payroll growth assumptions will likely lead to increased costs in the future. However, we believe the city has sufficient budgetary flexibility and liquidity to address these costs. The OPEB liability is well funded, with a minor liability.

The city participates in the following plans as of Dec. 31, 2020:

- Texas Municipal Retirement System (TMRS): 89.5% funded, with a net pension liability of $3.4 million, and
- OPEB plan: 376% funded, with net asset of $1.7 million.

The city provides pension benefits for all of its full-time employees through the TMRS, a multiple-employer, defined-benefit pension plan. Actuarially determined contributions fell slightly short of our minimum funding progress (MFP) metric. The MFP metric assesses whether the most recent employer and employee contributions cover total service cost, plus unfunded interest cost, plus one-thirtieth of the principal. When MFP is achieved, it indicates that an issuer has a strong funding discipline that aims to ensure timely progress on reducing its plans' liabilities. Actuarial assumptions include a discount rate of 6.75% and a 26-year closed amortization period. The plan's assumed discount rate is not aggressive, in our opinion, although we consider the closed amortization period of 26 years extended, leaving greater potential for costs to grow based on actual performance. Lastly, contributions are likely to increase given the level percent of payroll funding method, as opposed to level-dollar contributions, which would result in consistent payments.

OPEB include a health care benefit and a supplemental death benefit. The supplemental death benefit is a lump-sum payment. The health care benefit assumes an elevated 7.25% discount rate.

Kyle, Texas--Key Credit Metrics				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Adequate economy				
Projected per capita EBI % of U.S.	89			
Market value per capita ($)	72,499			
Population		48,945	47,235	
County unemployment rate(%)		4.1		
Market value ($000)	4,096,210	3,547,534	3,281,678	
Ten largest taxpayers % of taxable value	7.6			
Adequate budgetary performance				
Operating fund result % of expenditures		(1.1)	25.8	(18.3)
Total governmental fund result % of expenditures		31.2	38.4	29.7
Very strong budgetary flexibility				
Available reserves % of operating expenditures		72.5	94.6	72.7
Total available reserves ($000)		21,018	21,353	15,537
Very strong liquidity				
Total government cash % of governmental fund expenditures		164	161	171
Total government cash % of governmental fund debt service		908	712	666
Strong management				
Financial Management Assessment	Good			

Kyle, Texas--Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		18.0	22.6	25.7
Net direct debt % of governmental fund revenue	223			
Overall net debt % of market value	10.2			
Direct debt 10-year amortization (%)	54			
Required pension contribution % of governmental fund expenditures		4.1		
OPEB actual contribution % of governmental fund expenditures		0.3		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 26, 2022)		
Kyle GO rfdg bnds ser 2020 due 08/15/2030		
Long Term Rating	AA-/Stable	Affirmed
Kyle GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.