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Horseshoe Bay, Texas; General Obligation

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Credit Profile		
US$5.405 mil GO rfdg bnds ser 2020 dtd 03/19/2020 due 02/15/2030		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Horseshoe Bay, Texas' series 2020 general obligation (GO) refunding bonds.

Annual ad valorem taxes, levied within the limits prescribed by law and against all taxable property in the city, secure the series 2020 GO bonds.

The maximum allowable ad valorem tax rate for Texas cities is $2.50 per $100 of assessed value (AV) for all purposes with the dedicated debt-service portion limited to $1.50. The city's levy is well below the maximum at 27 cents per $100 of AV, including 3.84 cents for debt service.

We do not differentiate between the city's limited-tax GO debt and general creditworthiness. We think that the city's ability to meet debt service and continue to operate successfully has a strong link to its general creditworthiness and that there are no significant resource-fungibility limitations.

Officials will use series 2020 bond proceeds to refinance portions of series 2011 combination tax and revenue certificates of obligation for debt-service savings.

We do not expect material changes to Horseshoe Bays' key economic credit fundamentals during the next two years, but we expect the property tax base will likely continue to grow due to ongoing senior-living-focused residential development. We also expect to see the gradual spending down of available fund balance due to a recently revised reserve policy that allows the city to use excess reserves on capital projects instead of issuing debt.

The rating reflects our opinion of Horseshoe Bay's:

- Very strong economy, with projected per capita effective buying income at 222% of the national level and market value per capita of $581,371;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 52% of operating expenditures;
- Very strong liquidity, with total government available cash at 72.5% of total governmental-fund expenditures and 4.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 15.4% of expenditures and net

direct debt that is 180.9% of total governmental-fund revenue, but low overall net debt at less than 3% of market value and rapid amortization, with 67% of debt scheduled to be retired within 10 years; and

- Strong institutional framework score.

Very strong economy

We consider Horseshoe Bay's economy very strong. The city, with an estimated population of 3,737, is in Burnet and Llano counties. The city has a projected per capita effective buying income at 222% of the national level and per capita market value of $581,371. Overall, market value has grown by 5.5% during the past year to $2.2 billion in fiscal 2020. The counties' weight-averaged unemployment was 3.5% in 2018.

Horseshoe Bay is near Marble Falls, about 55 miles northwest of Austin. The 14-square-mile residential city's property is predominately luxury homes for retirees and vacation homeowners. Therefore, the tax base is very diverse with the 10 leading taxpayers accounting for just 5% of AV. We expect tax base growth to continue, supported by ongoing activity at Tuscan Village, a senior-living facility projected to bring in 300 new homes, and Horseshoe Bay Resort's expansion, a 7,000-acre resort overlooking Lake Lyndon B. Johnson.

Due to the city's sizable retiree population and current construction of additional residential units targeting the 55-year-and-older segment, we posit that, during the long term, a highly dependent retiree population--one we define as greater than 55% of the total population--could negatively affect the city's economy.

Strong management

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

Key practices include management's:

- Revenue and expenditure assumptions based, in part, on five years of historical trends and the use of outside sources to assist with forecasting;
- Monthly budget updates to the city council for review, including budget-to-actual comparisons;
- Five-year financial forecasting for the general and utility funds;
- Use of a five-year capital plan it updates annually with funding sources identified for some projects;
- Formal investment-management policy that follows state guidelines with quarterly holdings-and-performance reports to the council; and
- Formal reserve policy that requires projected annual budgets for the general fund, resulting in cash-flow reserves equal to the greater of $2.5 million or three months' total operating expenses, coupled with debt-service reserves as required by debt indentures.

The city does not currently have any formal debt-management practices.

Adequate budgetary performance

Horseshoe Bay's budgetary performance is adequate, in our opinion. The city had an operating deficit at 7.2% of expenditures in the general fund and a 2.4% surplus across all governmental funds in fiscal 2018.

We have adjusted for, what we view as, recurring transfers into and from the general fund, as well as the spending down of bond proceeds. We expect budgetary performance will likely remain between adequate and weak as officials gradually spend down excess reserves above the revised policy level to fund street improvements. While capital spending has an effect on the city's performance, we consider it operationally balanced. We do not currently view the city's performance as a credit pressure due to the maintenance of very high available reserves despite significant cash funding of capital needs.

We estimate the city will likely end fiscal years 2019 and 2020 with an estimated general fund deficit spending at 8.1%. We also expect similar budgetary performance across all governmental funds compared with the past three years' audited results.

In fiscal 2018, property taxes generated about 54% of general revenue while sales taxes accounted for 16% and charges for services generated 13%. All revenue streams have historically been relatively reliable.

Very strong budgetary flexibility

Horseshoe Bay's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 52% of operating expenditures, or $4.7 million. We expect available fund balance will likely remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

We expect budgetary flexibility will likely remain very strong during the next two fiscal years, supported by the city's formal policy that requires projected annual general fund budgets result in cash-flow reserves equal to the greater of $2.5 million or three months' total operating expenses. We estimate the city will likely end fiscal 2019 with available fund balance at roughly 48% of expenditures. Management revised its reserve policy in September 2018 to require a six-month reserve, and we expect officials will likely use reserves in excess of its current policy gradually during the next few fiscal years to fund street improvements.

Very strong liquidity

In our opinion, Horseshoe Bay's liquidity is very strong, with total government available cash at 72.5% of total governmental-fund expenditures and 4.7x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity if necessary.

The city's access to the market during the past 20 years and mainly tax-backed-bond issuance demonstrate its strong access to external liquidity. It has historically had, what we consider, very strong cash. In addition, we do not expect cash will likely deteriorate during the next two fiscal years. Currently, all investments comply with state guidelines. At June 30, 2019, city investments were primarily in the state investment pool and local banks. We do not consider these investments aggressive.

We expect liquidity will likely remain very strong because we do not think Horseshoe Bay has liabilities that would cause immediate or future liquidity pressure.

Adequate debt and contingent liability profile

In our view, Horseshoe Bay's debt-and-contingent-liability profile is adequate. Total governmental-fund debt service is 15.4% of total governmental-fund expenditures, and net direct debt is 180.9% of total governmental-fund revenue. Overall net debt is low at 2% of market value and roughly 67% of direct debt is scheduled to be repaid within 10 years, which we consider positive credit factors.

We understand officials do not currently plan to issue any additional debt during the next two years.

Horseshoe Bay provides retirement benefits for all full-time employees through Nationwide Retirement Solutions Inc.; it makes annual contributions to the plan equal to amounts accrued for expenses. The plan is a defined-contribution plan, and the city does not currently have ongoing or unfunded liabilities. Horseshoe Bay contributes an amount currently equal to 5% of the employee's regular base salary, not including overtime, into the retirement plan until the employee's fifth anniversary. After five years of continuous employment, the city's plan contribution will increase by 2.5% of regular salary to 7.5%. The city does not currently offer other postemployment benefits (OPEB) to retirees.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion it will likely not change the rating during the two-year outlook period. We expect budgetary flexibility and liquidity will likely remain very strong, supported by strong management and a formal reserve policy. We also expect ongoing residential development will likely support growth and very strong economic indicators. Due to the lack of additional bonding plans, we expect the debt profile will likely remain unchanged during the next few years.

Upside scenario

We could raise the rating if projected per capita effective buying income were to exceed 225% of the national level, coupled with further economic diversification. We also think our view of a highly dependent retiree population could negatively affect the city's economy during the next few years.

Downside scenario

We could lower the rating if the city's economy were to weaken due to a highly dependent retiree population or weak budgetary performance were to develop, resulting in management maintaining available fund balance below the policy requirement due to capital or operational spending.

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
- 2018 Update Of Institutional Framework For U.S. Local Governments