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Summary:

Horseshoe Bay, Texas; General Obligation

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US\$8.0 mil GO bnds ser 2023 dtd 06/13/2023 due 08/15/2053		
<i>Long Term Rating</i>	AA+/Stable	
		New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to the City of Horseshoe Bay, Texas' approximately \$8 million series 2023 combination tax and revenue certificates of obligation.
- The outlook is stable.

Security

The certificates are payable from an ad valorem tax levied on all taxable property in the city, within the limits prescribed by law, and a limited pledge not to exceed \$1,000 of surplus water and wastewater system revenue. However, we rate the certificates based on Horseshoe Bay's ad valorem pledge.

Annual ad valorem taxes, levied within the limits prescribed by law and against all taxable property in the city, secure the certificates of obligation.

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. Horseshoe Bay's levy is well below the maximum at 27 cents per \$100 of AV, including 5.6 cents for debt service. Ad valorem taxes are not levied on a narrower or distinctly different property tax base, and there are no limitations on the fungibility of resources available for debt service payment. Therefore, we view the limited-tax pledge as on par with the city's general creditworthiness. Bond proceeds will be used to fund a new city hall.

Credit overview

Horseshoe Bay's tax base continues to expand steadily from new high-end residential construction. The city benefits from its location 55 miles northwest of Austin and is in a scenic part of the state that attracts retirees with high wealth and income levels. Conservative budgeting supports strong available reserves and positive budgetary performance. Horseshoe Bay has \$37 million in debt including the current issuance. There are limited needs for additional debt so we do not expect the city's overall debt profile will become a pressure on the rating.

The rating also reflects our opinion of Horseshoe Bay's:

- Very strong economy, with market value per capita of \$741,146 and projected per capita effective buying income (EBI) at 170% of the national level;
- Strong management, with several formally adopted financial policies and practices and a very strong institutional framework score;

- Very strong available fund balance equal to 60% of operating expenditures in fiscal 2022; and
- Weak debt burden represented in 192% net direct debt as a percent of revenues, which we consider high.

Environmental, social, and governance factors

Our analysis incorporates the city's environmental, social, and governance risks relative to its credit factors, and we determined that they are neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that Horseshoe Bay's increasing tax base, with high wealth and income levels, very strong financial reserves, good financial practices and policies, and manageable debt, will continue in the next two years.

Downside scenario

We could lower the rating if the city's economy were to weaken or if weak budgetary performance were to develop, resulting in materially lower available reserves.

Upside scenario

We could raise the rating if ongoing economic growth and improving financial reserves continue, despite a possible recession, and additional debt does not materially worsen the debt profile.

Credit Opinion

Very strong economy supported by favorable location

Horseshoe Bay is near Marble Falls, about 55 miles northwest of Austin. The 14 square-mile residential city's property is predominantly luxury homes for retirees and vacation homeowners. Therefore, the tax base is very diverse, with the 10 leading taxpayers accounting for just 3.6% of AV. We expect tax base growth will continue, supported by ongoing new residential construction and some commercial projects coming online. Permits have set a new record, exceeding 240 new builds for the most recent year and many new homes are valued at more than \$1 million. Although permits are still very active, we are aware recessionary pressures are intensifying, which could slow down activity. Horseshoe Bay Resort is a 7,000-acre resort overlooking Lake Lyndon B. Johnson and is one of the city's leading employers. Should tax base growth continue at a similar pace, despite recessionary pressures, and support even higher income levels, we could raise the rating.

Strong management supported by good financial practices and policies

Management develops revenue and expenditure assumptions based on five years of historical trends and the use of outside sources to assist with forecasting. Monthly budget-to-actual results are provided to the city council. A five-year capital plan is updated annually with funding to come from either debt issuance, cash on hand, fund balances, or utility revenues depending on the project. The long-term financial plan is included in the annual budget and is updated annually. The city has a formal investment management policy that follows state guidelines, with quarterly holdings and performance provided to the council. The formal reserve policy requires a fund balance equal to the greater of

\$2.5 million or three months' total operating expenses. Horseshoe Bay does not currently have a formal debt policy.

Operating surpluses support very strong general fund balances

For fiscal 2022, the general fund ended with a surplus of \$2.1 million. Conservative budgeting for both property taxes and sales taxes drove the favorable results and they contributed 58% and 16%, respectively, to general fund revenues. Consistent with projections for fiscal 2022, the general fund balance increased to \$6.2 million from \$4.1 million, equal to 60% of general fund expenditures. Sales tax revenues are currently 19% over the previous year, which is an indication of the local economic growth. Management typically uses excess revenues to fund ongoing capital needs such as street improvements.

Horseshoe Bay received nearly \$1 million in American Rescue Plan Act (ARPA) money that it is using to fund a drainage study and three larger generators for the utility plants. Llano County is also passing through approximately \$1 million in ARPA funds to assist with internet access throughout Horseshoe Bay. We believe the city has established a trend of stable-to-positive financial operations that will continue to produce very strong reserves consistent with the rating.

Manageable debt profile, with limited plans for additional debt

The current issuance is the total amount authorized by voters in the November 2022 bond election to fund construction of a city hall. Officials mentioned there could be some debt needs for street improvements but nothing is set at present. Given ongoing tax base growth, we believe additional debt will not adversely affect our view of the city's debt profile.

Horseshoe Bay privately placed its series 2007 GO bonds with final maturity in August 2027; \$2.4million of this is currently outstanding. We have reviewed the terms and do not believe they include permissive events of default, or acceleration of principal as a remedy for default. Therefore, we do not consider this debt to be a contingent liquidity risk at this time.

Pension and other postemployment benefit liabilities

Horseshoe Bay has historically provided retirement benefits for all full-time employees through Nationwide Retirement Solutions Inc. making annual contributions to the plan equal to amounts accrued for expenses. However, Horseshoe Bay joined Texas Municipal Retirement System and will be providing benefits through this statewide plan effective Jan. 1, 2023. Horseshoe Bay does not offer other postemployment benefits to retirees at present.

Related Research

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

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