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# S&P Global

## Ratings

11511 Luna Road  
Suite 500  
Farmers Branch, TX 75234  
tel (214) 871-1400  
reference no.: 1781008

January 5, 2024

City of Horseshoe Bay  
PO Box 7765  
Horseshoe Bay, TX 78657  
Attention: Margie Cardenas, Finance Director

Re: **US\$9,060,000 City of Horseshoe Bay, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024, dated: February 13, 2024, due: August 15, 2035**

Dear Margie Cardenas

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA+". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Please send hard copies to:  
S&P Global Ratings  
Public Finance Department  
55 Water Street  
New York, NY 10041-0003

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jm  
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cc: **Jennifer Ritter**  
**Monica Melvin**

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**Summary:**

## **Horseshoe Bay, Texas; General Obligation**

**Primary Credit Analyst:**

Karolina Norris, Dallas + 1 (972) 367 3341; Karolina.Norris@spglobal.com

**Secondary Contact:**

Allie Jacobson, Englewood 303-721-4242; allie.jacobson@spglobal.com

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## Summary:

# Horseshoe Bay, Texas; General Obligation

### Credit Profile

US\$9.06 mil comb tax and rev certs of oblig ser 2024 dtd 02/13/2024 due 08/15/2035

<i>Long Term Rating</i>	AA+/Stable	New
Horseshoe Bay combination tax and rev certs of oblig		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Horseshoe Bay GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Horseshoe Bay GO bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Horseshoe Bay GO rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the City of Horseshoe Bay, Texas' approximately \$9 million series 2024 combination tax and revenue certificates of obligation (COs).
- S&P Global Ratings also affirmed its 'AA+' long-term rating on the city's general obligation (GO) bonds and COs outstanding.
- The outlook is stable.

### Security

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

The maximum allowable ad valorem tax rate for Texas home rule 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 26.8 cents per \$100 of AV, including 6.7 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 to be on par with the city's general creditworthiness.

CO proceeds will fund street and utility improvements and to construct a new fire station.

## Credit overview

Horseshoe Bay, about 55 miles northwest of Austin, benefits from its location and wealthy base, supporting healthy revenue growth despite some inflationary pressures. The city is in a scenic part of the state that attracts retirees with high wealth and income levels and the tax base continues to expand steadily from new high-end residential construction, although officials report that housing starts are at 70% of a 2021-2022 peak, with 260 residential units. In addition, there are some commercial, residential, and mixed-use developments in the design phase, with two developments of more than 300 homes, with one expected to be an independent to assisted living community with related health care commercial developments.

Property taxes and sales taxes, which management budgets for conservatively, fueled the favorable fiscal 2022 results and contributed 58% and 16%, respectively, to general fund revenues. Management estimates that fiscal 2023 ended with another, albeit smaller, surplus of about \$1 million, with building permit revenues being one of the main contributors. The city's fiscal 2024 budget is balanced and reflects a 9% increase in property taxes, consistent with prior years. On the expenditure side, there is a 3% increase in salaries, with other line items increasing 1%-2%. While the city plans to use nearly \$4 million of fund balance (along with previously issued bond proceeds) to construct a new city hall, we expect fund balance will remain in line with the city's formal fund balance policy.

Following this issuance, the city's total direct debt is approximately \$47.7 million. Management plans to issue debt for street improvements approximately every two-to-three years, as needed. Currently, we don't expect the additional debt plans will materially worsen Horseshoe Bay's debt profile. The city privately placed its series 2007 GO bonds. We have reviewed the terms and they do not include permissive events of default or remedies. Therefore, we do not consider this debt to be a contingent liquidity risk.

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

- Very strong and wealthy economy, with ongoing residential and commercial development;
- Strong management, with conservative assumptions, regular budget monitoring, formal investment and reserve policies, and formal long-term capital and financial plans; and a strong institutional framework score;
- Stable budgetary performance; and
- Weak-but-manageable debt burden with additional ongoing debt plans. Positively, the city only has a defined contribution pension plan and does not have an other postemployment benefits plan. However, Horseshoe Bay joined Texas Municipal Retirement System and will be providing benefits through this statewide plan effective Jan. 1, 2023.

## Environmental, social, and governance

We assessed the city's environmental, social, and governance (ESG) factors relative to its economy, management, financial measures, and debt and liability profile, and view them all as neutral considerations in our credit analysis.

## Outlook

The stable outlook reflects our expectation that over the next two years Horseshoe Bay will continue to benefit from an increasing tax base and its very strong financial reserves and strong management practices will be sustained.

### Downside scenario

We could lower the rating if the city's economy weakens materially or if a budgetary imbalance develops, resulting in sustained draws on reserves.

### Upside scenario

We could raise the rating if economic growth and financial reserves continue, and additional debt does not materially worsen the debt profile.

#### Horseshoe Bay, Texas--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
<b>Economy</b>				
Projected per capita EBI % of U.S.	169.5			
Market value per capita (\$)	849,045			
Population	4,185	4,123	3,956	
County unemployment rate(%)	3.6			
Market value (\$000)	3,553,254	2,591,318		
Ten largest taxpayers % of taxable value	4.0			
<b>Budgetary performance</b>				
Operating fund result % of expenditures	19.1	8.4	-2.4	
Total governmental fund result % of expenditures	19.6	6.1	-2.5	
<b>Budgetary flexibility</b>				
Available reserves % of operating expenditures	59.6	43.9	36.4	
Total available reserves (\$000)	6,193	4,124	3,239	
<b>Liquidity</b>				
Total government cash % of governmental fund expenditures	98.4	85.8	48.2	
Total government cash % of governmental fund debt service	762.3	696.0	376.5	
<b>Management</b>				
Financial Management Assessment	Good			
<b>Debt and long-term liabilities</b>				
Debt service % of governmental fund expenditures	12.9	12.3	12.8	
Net direct debt % of governmental fund revenue	258.0			
Overall net debt % of market value	2.0			
Direct debt 10-year amortization (%)	53.4			
<b>Required pension contribution % of governmental fund expenditures</b>				
<b>OPEB actual contribution % of governmental fund expenditures</b>				
<b>Institutional framework</b>				

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

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 Update Of Institutional Framework For U.S. Local Governments

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