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Summary:

Horseshoe Bay, Texas; General Obligation

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Credit Profile		
US$9.8 mil comb tax and rev certs of oblig ser 2014 dtd 05/15/2014 due 02/14/2039		
Long Term Rating	AA+/Stable	New
Horseshoe Bay GO		
Long Term Rating	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating on Horseshoe Bay, Texas' outstanding general obligation (GO) debt one notch to 'AA+' from 'AA' based on our local GO criteria released Sept. 12, 2013. At the same time, Standard & Poor's assigned its 'AA+' long-term rating to the city's series 2014 combination tax and revenue certificates of obligation. The outlook is stable.

The rating reflects our assessment of the following factors for the city:

- Very strong economy, with market value per capita at about $238,100;
- Very strong budgetary flexibility, with fiscal 2013 audited reserves at 71% of expenditures;
- Adequate budgetary performance;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management with good financial policies; and
- Weak debt and contingent liabilities position.

Very strong economy

We view Horseshoe Bay's local economy as very strong, with per capita market value at roughly $238,100 and projected per capita effective buying income at 193% of the national average. The approximately 14-square-mile city has an estimated population of 6,600 and consists predominately of luxury homes for retirees and vacation homeowners. The city is located in portions of both Burnet and Llano counties, near Marble Falls, Texas, and about 55 miles northwest of Austin, Texas. Llano County's unemployment rate for 2013 was 5.9%, according to the Bureau of Labor Statistics.

Very strong budgetary flexibility

Horseshoe Bay's budgetary flexibility is very strong, in our view, with available reserves at 70.7% of operating expenditures in fiscal 2013. The available fund balance was above 30% of expenses for the most recent audited year, and we believe that for the current year and the following years it will remain above 30%; we consider this as a credit strength. City officials anticipate a surplus for the end of fiscal 2014, so reserves are expected to stay at or above current levels for the near term.

Adequate budgetary performance

We view Horseshoe Bay's budgetary performance to be adequate overall, with a deficit of 8.6% for the general fund and a surplus of 12.3% for the total governmental funds in fiscal 2013, after netting out one-time expenses from the capital projects fund. For fiscal 2014, the city budgeted for a general fund surplus of $180,000, and management reports that based on the year-to-date performance the city should exceed that.

Very strong liquidity

In our opinion, very strong liquidity supports Horseshoe Bay's finances, with total government available cash to government fund expenditures and cash to debt service at 160% and 22.1x, respectively. Based on the city's past issuances of debt, we believe that it has strong access to capital markets to provide for liquidity needs if necessary.

Strong management

In our view, Horseshoe Bay's management conditions are strong with "good" financial practices under our Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Strengths of the assessment, in our opinion, include the city's conservative revenue and expenditure assumptions in its budgeting process, strong oversight in terms of monitoring its progress against the budget during the year, a formal investment management policy, monthly budget and investment updates to the city council, and a five-year capital improvement plan.

Weak debt and contingent liabilities profile

Horseshoe Bay's debt and contingent liabilities profile is weak, in our opinion. Total governmental fund debt service to total governmental fund expenditures and net direct debt to total governmental funds revenue are 7.2% and 217.4%, respectively. In our opinion, the net debt burden is low as a percentage of market value, at 1.5%, and a positive credit factor. The city contributes to its employees retirement in conjunction with each paycheck, with no ongoing or unfunded liabilities. The plan is administered by Nationwide Retirement Solutions, Inc. The city currently has no plans to issue additional debt in the near term.

Strong Institutional Framework

We consider the institutional framework score for Texas cities as strong. See Institutional Framework score for Texas.

Outlook

The stable outlook reflects our expectation that the city will continue to maintain very strong budgetary flexibility and that the economic indicators will remain very strong. While we do not expect to change the rating further within the two-year outlook time frame, a significant deterioration in the city's budgetary performance could place downward pressure on the rating. Conversely, a substantial improvement in the city's debt and contingent liabilities position could lead us to take a positive rating action.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

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