

# RatingsDirect®

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## Summary:

# Kyle, Texas; General Obligation

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## Summary:

# Kyle, Texas; General Obligation

### Credit Profile

US\$1.86 mil tax nts ser 2014 dtd 04/16/2014 due 02/15/2021

<i>Long Term Rating</i>	AA-/Stable	New
Kyle GO		
<i>Long Term Rating</i>	AA-/Stable	Upgraded

## Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Kyle, Texas' general obligation (GO) debt one notch to 'AA-' from 'A+' based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

In addition, Standard & Poor's assigned its 'AA-' long-term rating and stable outlook to the city's series 2014 tax notes.

An ad valorem tax, levied within the limits prescribed by law, on all taxable property within the city secures the series 2014 tax notes. Officials intend to use note proceeds to fund police department and public works improvement projects.

The rating reflects our opinion of the following factors for the city, including its:

- Adequate economy,
- Very strong budgetary flexibility,
- Adequate budgetary performance,
- Very strong liquidity,
- Strong management conditions,
- Very weak debt and contingent liabilities, and
- Strong Institutional Framework.

### Adequate economy

Kyle, with a population estimate of 34,000, is in Hays County, roughly 20 miles south of Austin along Interstate 35. Despite its access to Austin and subsequent economic growth, we consider the economy adequate due to below-average income and wealth. Per capita effective buying income equals 88% of the national level. Market value equals \$52,385 per capita. County unemployment equaled 5.2% in August 2013.

Kyle's location and affordability compared to the greater Austin-Round Rock metropolitan statistical area (MSA) have resulted in healthy commercial and residential development in the city. Therefore, taxable assessed value (AV) has increased by 23% over the past five fiscal years to \$1.55 billion in fiscal 2014. Citywide sales tax collections increased by 54% since fiscal 2009 to \$4.01 million in fiscal 2013. City officials expect recent sales tax trends to continue due to ongoing commercial and residential development.

### **Very strong budgetary flexibility**

In our opinion, budgetary flexibility is very strong. After consecutive years of general fund operating surpluses, the fiscal year-end 2012 general fund balance of \$4.5 million equaled 39% of expenditures. Unaudited fiscal 2013 results indicate a \$6.04 million fiscal year-end general fund balance, or 46% of expenditures.

### **Adequate budgetary performance**

Despite recent general fund surpluses, we consider budgetary performance adequate due to total governmental funds results. Kyle reported a 14% general fund operating surplus and a 2.8% total governmental funds deficit, net of transfers and nonrecurring expenses, in fiscal 2012. Unaudited fiscal 2013 results indicate a 12% general fund surplus. The fiscal 2014 adopted budget reflects a very minor increase to fiscal year-end general fund balance. Management, however, expects that favorable budget variance could result in a fiscal year-end general fund balance increase of \$500,000-\$800,000 compared with previous-year results.

### **Very strong liquidity**

What we consider very strong liquidity supports Kyle's finances with total government available cash, net of restricted cash and unspent bond proceeds, equal to roughly 50% of expenditures and 185% of annual debt service. We believe Kyle has, what we consider, strong access to external liquidity, indicated by its frequent GO debt issuances over the past decade.

### **Strong management conditions**

We view Kyle's management conditions as strong due, in large part, to a Financial Management Assessment methodology of "good" under our methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Key practices include management's:

- Formal policy of maintaining 90 days' expenditures in the general fund, which it is currently exceeding;
- Formal debt management policy;
- Long-range capital planning; and
- Quarterly financial updates to elected officials.

### **Very weak debt and contingent liabilities profile**

In our opinion, Kyle's debt and contingent liabilities profile is very weak. Fiscal 2012 debt service carrying charges equaled 27% of total governmental funds expenditures, and net direct debt equaled roughly 350% of fiscal 2013 total governmental fund revenue. Including all overlapping entities, overall debt equals more than 10% of fiscal 2014 AV. We understand officials will likely issue the remainder of the \$30.48 million GO bond authorization for streets in periodic installments over the next six to eight years.

Kyle provides pension benefits to eligible employees through the Texas Municipal Retirement System, a multiemployer, defined-benefit pension plan. It has made the annual required contribution (ARC) over the past several years; the ARC equaled \$533,000 in fiscal 2012. As of the most recent actuarial valuation, the pension plan was 83% funded. Kyle also provides other postemployment benefits (OPEB) for retirees; it has made the ARC to both OPEB plans over the past several fiscal years, which equaled roughly \$88,000 in fiscal 2012. The combined fiscal 2012 pension and OPEB contribution was roughly 3% of total governmental fund expenditures.

## Strong Institutional Framework

We consider the Institutional Framework score for Texas cities strong.

## Outlook

The stable outlook reflects Standard & Poor's opinion that Kyle will likely continue to benefit from its access to the Austin-Round Rock MSA, allowing for continued tax revenue growth. The outlook also reflects our opinion that Kyle will likely maintain, what we consider, its strong financial profile but that its debt profile will likely remain very weak due to ongoing growth-related capital pressure. While we do not expect it to occur within the two-year outlook period, we could raise the rating if continued economic growth and diversification were to result in improved wealth and income. Conversely, we could lower the rating if the city's finances were to deteriorate.

## 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

### Ratings Detail (As Of March 11, 2014)

Kyle GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Kyle GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Kyle GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
<b>Kyle GO</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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