

RatingsDirect®

Summary:

Kyle, Texas; General Obligation

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US\$39.86 mil GO and Rfdg Bnds ser 2015 due 08/15/2035

Long Term Rating

AA-/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Kyle, Texas' series 2015 general obligation (GO) and refunding bonds. At the same time, Standard & Poor's affirmed its 'AA-' long-term rating and underlying rating (SPUR) on the city's parity GO bonds. The outlook is stable on all ratings.

An ad valorem tax, levied within the limits prescribed by law, on all taxable property within the city secures the bonds. The city's tax rate is limited to \$2.50 per \$100 of assessed value (AV); however, the city has significant taxing flexibility, in our view, despite the statutory cap, with a current tax rate of 53.83 cents per \$100 of AV. Proceeds will be used to refund a portion of the city's debt for debt service savings and for road improvements.

The ratings reflect our view of the following factors for Kyle:

- Adequate economy, with projected per capita effective buying income at 87.1% and market value per capita of \$49,694. However, the economy benefits from its access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies;
- Strong budgetary performance, with operating results that we expect could moderate in the near term relative to fiscal 2014, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 66% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash of 93.8% of total governmental fund expenditures and 3.5x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges of 26.6% and net direct debt that is 428.2% of total governmental fund revenue, as well as high overall net debt at greater than 10% of market value; and
- Strong institutional framework score.

Adequate economy

We consider Kyle's economy adequate. With an estimated population of 34,100, the city is located in Hays County in the Austin-Round Rock MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 87.1% of the U.S. level and per capita market value of \$49,694. Overall, the city's market value grew by 9.6% over the past year, to \$1.7 billion in 2015. The county unemployment rate was 5.1% in 2013.

Kyle's location roughly 15 miles south of Austin and eight miles north of San Marcos, and relative affordability compared to the greater Austin-Round Rock MSA have resulted in healthy commercial and residential development. In aggregate, AV has grown \$363 million since fiscal 2010. The city's property tax base is diverse, with the top 10

taxpayers accounting for slightly more than 8% of the total tax base. Management expects residential and retail development to continue for the medium term.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Key practices include management's:

- Formal policy, as outlined in the city charter, of maintaining 90 days' expenditures in the general fund, which it is currently exceeding;
- Formal debt management policy;
- Five-year capital plan with identified funding sources; and
- Quarterly budget and investment updates to elected officials.

Strong budgetary performance

Kyle's budgetary performance is strong, in our opinion, with operating surpluses of 23% in the general fund and 6.3% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

For fiscal 2014, sales tax collections and building permits grew 14.5% and 58.1% respectively, relative to 2013. Despite a budgeted general fund deficit for fiscal 2015, given the city's performance trends, we anticipate by year-end the general fund and total governmental funds' performance will remain within strong metrics.

Very strong budgetary flexibility

Kyle's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 66% of operating expenditures, or \$9.2 million. We expect the available fund balance will remain above 30% of expenditures for the current and next fiscal year, which we view as a positive credit factor. In addition, the city has an ability and willingness to raise taxes when needed, which we view as a positive credit factor.

While the fiscal 2015 budget reflects a slight drawdown in reserves, given the city's conservative budgeting practices and performance trends, we anticipate year-end fund balance to remain near fiscal 2014's.

Very strong liquidity

In our opinion, Kyle's liquidity is very strong, with total government available cash of 93.8% of total governmental fund expenditures and 3.5x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Very weak debt and contingent liability profile

In our view, Kyle's debt and contingent liability profile is very weak. Total governmental fund debt service is 26.6% of total governmental fund expenditures, and net direct debt is 428.2% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 13.3% of market value. The city has no immediate plans to issue new debt in the next two years.

Kyle's combined pension and other postemployment benefits (OPEB) contributions totaled 3% of total governmental fund expenditures in 2014. The city made its full annual required pension contribution in 2014. Kyle's pension benefits

to eligible employees are provided through the Texas Municipal Retirement System, a multiemployer, defined-benefit pension plan. As of the most recent actuarial valuation, the pension plan was approximately 74% funded. Kyle's OPEB for retirees are paid on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our view that the city will likely continue to benefit from economic growth across the Austin-Round Rock MSA, leading to sustained strong budgetary performance and very strong budgetary flexibility. While we do not expect it to occur within the two-year outlook period, we could raise the ratings if continued diversified economic growth were to further boost wealth and income levels or if its debt profile were to improve significantly. Conversely, we could lower the ratings if finances were to deteriorate significantly.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

Related Research

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

Ratings Detail (As Of April 8, 2015)		
Kyle GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Kyle GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Kyle GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Kyle GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Kyle GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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