S&P Global
Ratings

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Summary:
Abilene, Texas; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$73.595 mil GO rfdg bnds ser 2019 dtd 11/15/2019 due 02/15/2040		
Long Term Rating	AA+/Stable	New
US$28.32 mil comb tax and ltd surplus rev certs of oblig ser 2019 dtd 11/15/2019 due 02/15/2040		
Long Term Rating	AA+/Stable	New
US$8.28 mil GO bnds ser 2019 dtd 11/15/2019 due 02/15/2040		
Long Term Rating	AA+/Stable	New
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Abilene, Texas' series 2019 general obligation (GO) bonds, 2019 combination tax and limited surplus revenue certificates of obligation, and 2019 taxable GO refunding bonds. At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the city's GO debt outstanding. The outlook is stable.

The certificates are the city's direct obligations, payable from a combination of the levy and collection of a continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property in the city. The series 2019 and previously issued certificates are additionally secured by a limited surplus net revenue pledge of the city's water and sewer system, not to exceed $1,000. Despite the additional revenue pledge securing the city's certificates, we rate the debt based on the city's GO pledge, which we view as the stronger pledge. The ad valorem taxes are not levied on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018, on RatingsDirect), we view the limited-tax GO debt pledge on par with the issuer credit rating, which is based on the city's general creditworthiness. State statutes limit the ad valorem tax rate for home rule cities to $2.50 per $100 of taxable assessed valuation (AV) for all city purposes. Administratively, the Texas attorney general will permit the allocation of $1.50 of the $2.50 maximum tax rate for ad valorem tax debt service. In fiscal 2019, the city's levy is well below the maximum at 60.7 cents per $100 of AV, 18.1 cents of which is dedicated to debt service.

The series 2019 bond proceeds plan to be used to make improvements and additions to the city's street systems, as well as constructing runways, taxiways, and other improvements for the city's airport. The city's 2019 certificate proceeds will be used to make additions and improvements to the city's waterworks and sewer system, radio and microwave communications equipment, and installing various energy efficient equipment upgrades to city owned buildings. Finally, the 2019 refunding bond proceeds will be used to refund a portion of the city's GO debt outstanding to achieve debt service savings.

Credit Overview

Abilene has maintained positive operations, even while consistently utilizing reserves in excess of its fund balance policy to fund capital projects. Furthermore, the city has maintained its very strong reserve and liquidity positions, while cash funding capital projects, mitigating its elevated debt burden. The local economy is understated, in our view, with the presence of several stabilizing institutions that suppress income and wealth levels. We expect the city will continue to experience economic expansion, given the ongoing development taking place. The city's Firemen's Relief and Retirement Fund pension plan is a contingent liability, in our view, as its actuarial assumptions are weak and its unfunded liability continues to grow. The city has made several improvements to its assumptions (beginning in fiscal 2020); however, the changes to its assumptions are not enough, in our view, to match the plans growing unfunded liability and that the city continues to defer the plans related costs.

The 'AA+' rating reflects our opinion of the following credit factors:

- Weak economy, with projected per capita effective buying income at 79.7% and market value per capita of $54,598, though that is advantageously gaining from a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 42.8% 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 at 12.1% of expenditures and net direct debt that is 121.2% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Weak economy

We consider Abilene's economy weak. The city, with an estimated population of 122,245, is located in Jones and Taylor counties. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 79.7% of the national level and per capita market value of $54,598. Overall, the city's market value grew by 4.8% over the past year to $6.7 billion in 2020. The weight-averaged unemployment rate of the counties was 3.3% in 2018.

Abilene is the seat of Taylor County, and is located 150 miles west of Fort Worth, along the interstate 20 corridor. Primary economic drivers for the city include U.S. military, higher education, health care, and various distribution centers. Dyess Air Force Base, home to the Seventh Wing Air Combat Command, employs about 8,400 employees, including military employees, civilian employees, and retirees. The city is also home to six higher education institutions, including three private universities that have a total cumulative enrollment of over 7,860 students. Exempt property value from the base alone totals more than $1.8 billion. Total exempt value of other properties, including the Air Force base and universities, is about $3.6 billion. Due to the large presence of military and student residents, in addition to the city's large portion of tax exempt properties, we believe Abilene's economy benefits from multiple stabilizing institutions.

More than half the city's assessed valuation (excluding exempt properties constitute single family residential properties, with nearly a quarter of assessed value (AV) consisting of commercial or industrial properties. The city's AV has increased over 24% in the last five years alone, driven by both new development and organic property appreciation. Furthermore, management notes its downtown area has seen significant rejuvenation, with several properties recently being purchased and redeveloped. City officials note there is currently a substantial amount of economic development, including a new shopping center, several residential subdivisions, and the development of much land along the I-20 corridor that has historically been undeveloped. Overall, we expect Abilene will continue to experience economic expansion over the medium term.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

City management's budgeting process has been conservative in recent years, utilizing historical trends for revenue and expenditure assumptions. Management reports budget-to-actuals to the city council on a monthly basis and has the flexibility to make amendments throughout the fiscal year. The city has a formal five-year rolling capital improvement plan that identifies detailed projects and their respective funding sources. Recently, the city created a five-year, long-range financial forecast in conjunction with its adopted budget, which is updated annually. Management also has an internal investment policy that mirrors state guidelines, and investment performance and holdings are reported to city council on a monthly basis. Although not formally adopted, management has informal saving targets for refundings and other debt-financing guidelines and limitations. Abilene has a formal general fund balance policy that requires an unassigned fund balance of at least 25%, and if the balance were to fall below 20%, then the city needs to budget and use other operational tools to replenish reserves to the 25% level.

Very strong budgetary performance

Abilene's budgetary performance is very strong in our opinion. The city had operating surpluses of 6.3% of expenditures in the general fund and of 10.1% across all governmental funds in fiscal 2018.

In assessing the city's budgetary performance, we adjusted for annually recurring transfers into the general fund from the utility fund and the city's allocation of hotel/motel tax from its special revenue funds. Additionally, we adjusted for recurring transfers to non-major enterprise funds (including transfers of operating reserves to fund capital expenditures) and other governmental funds from the city's general fund and for total governmental expenditures toward one-time capital projects.

Abilene has consistently realized positive operations through conservative budgeting and strong revenue growth. The city's operating surplus in fiscal 2018 was largely driven by significant sales tax growth, displayed by an 11.5% increase in sales tax revenue from fiscal 2017, in addition to another year of conservative budgeting. We view Abilene's general fund revenue base as diverse, with sales taxes making up 35.6% of total general fund revenues (inclusive of recurring transfers) and property taxes accounting for 34%.

Due to another year of strong sales tax performance, the city is anticipating another operating surplus for fiscal 2019, including a surplus of $1 million-$2 million. For fiscal 2020, the city budgeted for an increased overall tax rate to provide employees with more competitive compensation. Overall, we expect the city to continue to have strong budgetary performance over the next two years.

Very strong budgetary flexibility

Abilene's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 29% of operating expenditures, or $28.2 million.

The city has historically maintained very strong reserves, in our opinion, maintaining its available fund balance near 30% of operations. Management has a target fund balance of 25% of operations and has utilized reserves in excess of this target to cash fund capital expenditures, which we believe has aided in the mitigation of its debt burden. There are currently no intentions to draw reserves below its 25% target, and officials are likely to continue utilizing excess reserves for capital. Therefore, we expect its reserve position is likely to remain very strong over the next few fiscal years.

For fiscal 2020, the city is budgeting for a net tax increase of 1.55 cent increase, including an maintenance and operations (M&O) rate increase of 4.21 cents and interest and sinking fund (I&S) rate decrease of 2.66 cents. The state's recent legislation regarding limited property tax revenue growth is likely to lower the city's property tax rates over the medium term, as city officials anticipate further valuation growth.

For more information regarding the recent legislative changes in Texas, see our article titled "Texas Local Governments Could Face Budget Headwinds--And Credit Quality Strain--From Property Tax Reform" (published June 12, 2019).

Very strong liquidity

In our opinion, Abilene's liquidity is very strong, with total government available cash at 42.8% of total governmental fund expenditures and 3.5x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary. In our opinion, the city's strong access to external liquidity is by its issuance of GO and certificates of obligation debt over the two decades. Currently, the city's investments comply with Texas statutes and the city's internal investment policy. The majority of investments include certificates of deposit, U.S. government securities, money market accounts, and state pooled accounts, none of which we consider aggressive.

The city privately placed its series 2012 and 2018 certificates with the Texas Water Development Board (approximately $20.2 million total outstanding), yet the certificates are issued on parity with all other debt issuances of the city. The legal documents do not include any non-standard events of default, cross-default, or acceleration provisions that we believe would put any additional or extraordinary stress on the city's liquidity position.

Very weak debt and contingent liability profile

In our view, Abilene's debt and contingent liability profile is very weak. Total governmental fund debt service is 12.1% of total governmental fund expenditures, and net direct debt is 121.2% of total governmental fund revenue.

The city will have approximately $360.5 million in GO debt outstanding upon the issuance of these obligations. However, we note much of this is considered self-supporting from the city's utility systems. The city plans to issue approximately $11.6 million in additional debt in spring of 2020 to fund a portion of a downtown hotel project, which is expected to be self-supported through hotel related revenues. Overall, we expect the city's debt burden will likely remain elevated based on its future debt plans and continuous capital needs related to economic expansion.

In our opinion, a credit weakness is Abilene's large pension and OPEB obligation. Abilene's combined required pension and actual OPEB contributions totaled 11.3% of total governmental fund expenditures in 2018. Of that amount, 7.4% represented required contributions to pension obligations (2.4% of which are contributions to the Abilene Firemen's Relief and Retirement Fund), and 3.8% represented OPEB payments. The city made its full annual required pension contribution in 2018.

Pension/OPEB Highlights:

- While we consider the city to have large unfunded pension obligation in its Abilene Firemen's Relief and Retirement Fund (AFRRF), we do not view pension and OPEB liabilities as an immediate source of budgetary pressure for Abilene despite lower funding levels for the AFRRF and our expectation that costs will increase.
- We view the city's AFRRF pension plan to be built from what we view as weak assumptions and methodologies, increasing the risk of unexpected contribution escalations. However, we anticipate higher contributions will likely remain affordable given the strength of the city's revenue base.
- While the city has implemented actuarial assumption changes to its AFRRF plan, we believe current changes are not enough to address its growing unfunded liability, deferring pension costs, in our view.

Abilene participates in the following plans as of Sept. 30, 2018:

- Abilene Firemen's Relief and Retirement Fund: 52.3% funded with a net pension liability of $52 million.
- Texas Municipal Retirement System (TMRS): 95.6% funded with a net pension liability of $13.2 million.
- Group-term life insurance is also provided through the Supplemental Death Benefits Fund operated by TMRS, with a total OPEB liability of $4.2 million.

The city participates in the Texas Municipal Retirement System (TMRS), which is an agent multiple-employer hybrid pension plan administered by the state of Texas, and the city's largest plan. The required pension contribution is the city's actuarially determined contribution (ADC), which is calculated at the state level. The city's GASB-reported net pension liability measured as of Dec. 31, 2017, was $13.2 million, and its GASB funded ratio was 95.6%. TMRS calculates the ADC using a level percent of payroll amortization, assuming 3% annual growth, which adds risk given that contributions are deferred into the future with the idea that growth will enhance affordability. TMRS also amortizes using a layered 25-year offsetting approach. This means that for each year there is a loss, a new base is created to be amortized over 25 years, which we consider long. However, each year there is a gain and the largest loss is essentially reduced, decreasing overall contribution volatility. TMRS lists an equivalent single amortization period for the city of 28 years for fiscal 2018.

The city also administers the Abilene Firemen's Relief and Retirement Fund, which is a single-employer defined-benefit pension plan. The plan maintained a GASB funded level of 52.3%, which we view as weak, with a net pension liability of $52 million as of Sept. 30, 2018. Contribution rates are contractually set and funded, which can lead to funding shortfalls. Additionally, the pension plan utilizes what we consider as risky actuarial assumptions that could lead to contribution volatility, including an elevated discount rate of 8% and a static mortality assumption. The city plans to implement actuarial changes to the plan, starting fiscal 2020, including 4% overall increase in contributions, lowering of the discount rate to 7.5% (although we still view this to be relatively risky), and creating a new plan for new firefighters that extends the retirement age to 53 from 50. However, we do not view the actuarial changes as sufficient to keep up with the plan's growing cost. Management notes there is ability to further cut expenditures if needed and that there is potential for further actuarial assumption refinements toward conservatism in the future.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our view of the city's strong and stable financial performance, including the maintenance of its very strong reserves and use of reserves in excess of its target fund balance to cash fund capital. Further supporting the outlook is the city's continuously expanding economy, despite its relatively low income and wealth indicators (which we believe are suppressed by the presence of the universities and Air Force base). Therefore, we do not anticipate changing the rating over the two-year outlook.

Downside scenario

We could lower the rating if any deterioration in budgetary performance cause the city to draw on its very strong reserve position over a sustained period, or if the city fails to address its growing unfunded pension liability, especially its firefighters plan. We could also lower the rating if there is any material weakening of any key credit factor, including debt or financial metrics.

Upside scenario

We could raise the rating if the city were to continue to see economic development, leading to improvement in wealth and income levels, comparable to those of higher-rated peers, coupled with significant improvement in the Firemen's Relief and Retirement Fund funding ratio.

Ratings Detail (As Of October 28, 2019)		
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of October 28, 2019) (cont.)		
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Abilene GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.