

RatingsDirect®

Summary:

Southlake, Texas; General Obligation

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Credit Profile

US\$3.225 mil Tax and Waterworks and Swr Sys (Ltd Pledge) Rev Certs of Obl ser 2015 dtd 05/01/2015 due 02/15/2035

<i>Long Term Rating</i>	AAA/Stable	New
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Southlake go rfdg bn ds ser 2014 dtd 05/01/2014 due 02/15/2026

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Southlake GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Southlake GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Southlake GO

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Southlake, Texas' series 2015 tax and waterworks and sewer system revenue certificates of obligation. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's previously issued GO debt. The outlook is stable.

We understand that officials will use certificate proceeds to fund the construction of various public works projects. The certificates constitute direct obligations of the city, payable from a combination of levy and collection of annual ad valorem tax and a limited pledge of the net revenues from the city's combined waterworks and sewer system.

The rating reflects our view of Southlake's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies;
- Very strong budgetary performance, 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 72% of operating expenditures;
- Very strong liquidity, with total government available cash of 1.8x total governmental fund expenditures and 6.7x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges of 27.3% and net direct debt that is 153.9% of total governmental fund revenue, but rapid amortization with 72.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Southlake's economy very strong. Southlake, with an estimated population of 27,833, is located in Denton and Tarrant counties in the Dallas-Fort Worth-Arlington, Texas metropolitan statistical area (MSA), which we consider to be broad and diverse. The city has a projected per capita effective buying income of 289% of the U.S. level, which we view as extremely high and a positive credit factor and per capita market value of \$221,373. Overall, the city's market value grew by 6.2% over the past year to \$6.2 billion in 2015. The weight-averaged unemployment rate of the counties was 6.0% in 2013.

Growth projections indicate the city will achieve build out with a population of about 35,000, which city officials estimate will occur between 2025 and 2030. Population growth has triggered retail and commercial construction along several thoroughfares, which, in addition to new home development, has contributed to Southlake's steady assessed valuation (AV) growth.

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.

Management uses historical trends, departmental needs, and statistical information to forecast revenue and expenditures. Management has developed an informal long-term financial plan and a formal five-year capital improvement plan with identified funding sources. Officials monitor the budget monthly and make adjustments midyear. The city has a written, in-depth, and conservative investment policy, and makes quarterly updates to the governing body. Debt management guidelines outline when city officials can issue debt. A formal reserve policy targets reserves of at least 25% of operating expenditures for emergencies.

Very strong budgetary performance

Southlake's budgetary performance is very strong in our opinion, with operating surpluses of 21% in the general fund and 18.4% across all governmental funds in fiscal 2014.

After adjusting for one-time capital expenses and recurring revenue sources, we believe Southlake will experience similar results in fiscal 2015 given the continuous residential and commercial growth in the city. The city also benefits from the retail sales, which comprised about 30% of general fund revenues in fiscal 2014 and have demonstrated stable growth in past years.

Very strong budgetary flexibility

Southlake's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 72% of operating expenditures, or \$24.5 million. We expect the available fund balance will remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Since 2006, the city has been designating funds for strategic initiatives. The source of these funds is reserves in excess of 25% of general fund expenditures. The funds are used for one-time high impact projects involving infrastructure maintenance, community enhancement, and capital acquisition, and are reported as assigned fund balance in the general fund. In fiscal 2014, Southlake assigned about \$7.9 million to its strategic initiatives, which we believe will be

used to fund future capital projects. Despite any use of these assigned funds, we believe the city's reserves will remain very strong over the next two years.

Very strong liquidity

In our opinion, Southlake's liquidity is very strong, with total government available cash of 1.8x total governmental fund expenditures and 6.7x governmental debt service in 2014. In our view, the city has exceptional access to external liquidity if necessary.

Weak debt and contingent liability profile

In our view, Southlake's debt and contingent liability profile is weak. Total governmental fund debt service is 27.3% of total governmental fund expenditures, and net direct debt is 153.9% of total governmental fund revenue.

Approximately 72.8% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Southlake's combined pension and other postemployment benefits contributions totaled 3.9% of total governmental fund expenditures in 2014. The city made its full annual required pension contribution in 2014.

Strong institutional framework

We view the institutional framework score for Texas municipalities as strong.

Outlook

The stable outlook reflects our view of Southlake's very strong budgetary flexibility and very strong budgetary performance, which is supported by strong management. The 'AAA' rating also reflects the city's very strong economy that, in addition to Southlake's access to the Dallas-Fort Worth MSA, reflects very strong income levels. We do not expect to change the rating in the next two years because we believe Southlake will maintain very strong reserve levels, and will continue to have at least balanced operations. Although we view it as unlikely within the two-year outlook, we could take a rating action if additional debt issuances were to significantly increase fixed-cost carrying charges to a level we viewed as elevated and unmanageable and finances materially decreased.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

Related Research

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

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