

RatingsDirect®

Summary:

Trophy Club, Texas; General Obligation

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Credit Profile

US\$5.4 mil GO bonds ser 2016 dtd 05/01/2016 due 09/01/2036

Long Term Rating AA+/Stable New

US\$4.4 mil comb tax and rev certs of oblig ser 2016 dtd 05/01/2016 due 09/01/2036

Long Term Rating AA+/Stable New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Trophy Club, Texas' series 2016 general obligation (GO) bonds and series 2016 combination tax and revenue certificates of obligation. At the same time, Standard & Poor's affirmed its 'AA+' rating on the city's previously issued GO debt. The outlook is stable.

The bonds are secured by an ad valorem tax levied on all taxable property within the city. The maximum allowable tax rate in Texas is \$2.50 per \$100 of assessed valuation (AV) for all purposes, with the portion dedicated to debt service limited to \$1.50. The city's tax levy is well below the maximum at a total rate of 48 cents, with 11 cents used to pay debt service. The certificates are secured by both the ad valorem tax and a nominal (not to exceed \$1,000) pledge of drainage system revenue. Due to the nominal nature of the drainage pledge, we rate the certificates based on the city's GO rating.

Bond and certificate proceeds will be used to fund the construction of a new administration and police building along with a bridge reconstruction project.

The 'AA+' rating reflects our assessment of Trophy Club's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" 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 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 44% of operating expenditures;
- Very strong liquidity, with total government available cash at 71.2% of total governmental fund expenditures and 4.9x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 14.5% of expenditures and net direct debt that is 189.3% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Trophy Club's economy very strong. The city, with an estimated population of 13,000, is located in Denton and Tarrant counties in the Dallas-Fort Worth-Arlington, TX MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 173% of the national level and per capita market value

of \$120,647. Overall, the city's market value grew by 14.6% over the past year to \$1.6 billion in 2016. The weight-averaged unemployment rate of the counties was 4.4% in 2014.

Trophy Club is an affluent, primarily residential, suburb located 25 miles northeast of downtown Fort Worth and 27 miles northwest of downtown Dallas. The city has been developing rapidly in recent years. City officials report a recent shift from low-density residential development toward more commercial and high-density residential uses as the city approaches residential build-out. Overall, we expect the tax base to continue growing for at least the next two years.

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.

Revenue and expenditure assumptions are based on three years of historical data, with multiple scenarios generated regarding tax base growth, and the city has a strong record of conservative budgeting. Budget-to-actual reports are presented monthly, with amendments made as needed. Trophy Club maintains a three-year financial plan, with projections extending five years for the general fund. It maintains a rolling, five-year capital improvement plan. The city reports investment holdings and performance monthly subject to a formally adopted investment management. Trophy Club has formally adopted basic debt management policies, including rate, amortization, and debt-to-AV limits. It adheres to a formally adopted 30% reserve policy, established to ensure sufficient liquidity and funding for any unforeseen operational pressures or capital needs.

Very strong budgetary performance

Trophy Club's budgetary performance is very strong in our opinion. The city had operating surpluses of 8.1% of expenditures in the general fund and of 5.3% across all governmental funds in fiscal 2015.

The city adopted a fiscal 2016 budget that indicates a 1% general fund surplus. Officials indicate that expenditure is trending below budgeted levels for almost all departments. Revenues are also trending favorably, with sales tax receipts 5% above budgeted levels and building permits nearly 20% higher than budgeted amounts. Overall, officials expect to end the year with better-than-budgeted operating results for 2016. We do not expect any deterioration in the city's very strong budgetary performance for the foreseeable future.

Very strong budgetary flexibility

Trophy Club's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 44% of operating expenditures, or \$3.5 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Given our understanding of the city's year-to-date budgetary performance for fiscal 2016, we do not expect any deterioration in budgetary flexibility by the end of the fiscal year. Officials anticipate a \$430,000 decline in fund balance for fiscal 2017 to fund expenses related to a new city hall; however, that drawdown would not bring reserves below the level we view as very strong.

Very strong liquidity

In our opinion, Trophy Club's liquidity is very strong, with total government available cash at 71.2% of total governmental fund expenditures and 4.9x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Our belief that Trophy Club has strong access to external liquidity is based on the historical issuance of GO debt. While Texas law allows municipalities to make investments we view as aggressive, the city's investments are limited to highly liquid state investment pools.

Very weak debt and contingent liability profile

In our view, Trophy Club's debt and contingent liability profile is very weak. Total governmental fund debt service is 14.5% of total governmental fund expenditures, and net direct debt is 189.3% of total governmental fund revenue.

City officials currently plan to issue approximately \$5 million of additional debt in 2017 to fund street, drainage, and park improvements. The city has no privately placed debt outstanding and no exposure to variable-rate debt or derivatives.

Trophy Club's pension contributions totaled 6.1% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

The city participates in the Texas Municipal Retirement System (TMRS), which is administered by the State of Texas. Its required pension contribution is actuarially determined annually. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement No. 68, the city's net pension liability was \$1.9 million as of December 2014. The plan is 88% funded, using the fiduciary net position as a percentage of the total liability. For additional details on GASB 67 and 68, see our report "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect. Trophy Club also provides retiree healthcare benefits on a pay-as-you-go basis; however, the costs incurred are minimal.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our expectation that Trophy Club will maintain a very strong financial position and economy, but that high debt levels will remain a constraining factor within the two-year outlook horizon. For these reasons, we don't anticipate a rating change within that timeframe.

Upside scenario

Extensive tax base and revenue growth that improved the city's debt metrics could result in a positive rating action.

Downside scenario

Sustained deterioration in budgetary performance, potentially due to unforeseen growth pressures, that also materially affected budgetary flexibility could result in a downgrade.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015

Related Research

- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of April 5, 2016)

Trophy Club GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Trophy Club GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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