

RatingsDirect®

Summary:

Trophy Club, Texas; General Obligation

Primary Credit Analyst:

Daniel E Hughes, Centennial 303.721.4272; daniel.hughes@spglobal.com

Secondary Contact:

Andy Hobbs, Dallas (972) 367-3345; Andy.Hobbs@spglobal.com

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Credit Profile

US\$4.5 mil combination tax and rev certs of oblig ser 2017 due 09/01/2037

Long Term Rating AA+/Stable New

Trophy Club GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Trophy Club, Texas' series 2017 combination tax and revenue certificates of obligation and affirmed its 'AA+' rating, with a stable outlook, on the town's existing general obligation (GO) debt.

An ad valorem tax levied on all taxable property within the town secures the bonds. 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 town's tax levy is 47.3 cents, with 11 cents devoted to debt service, well below the maximum. Despite limitations imposed by the state-levy-limit law, we did not make a rating distinction for the limited-tax-GO pledge due to the town's flexibility under the levy limit. An ad valorem tax and a nominal pledge of drainage system revenue, not to exceed \$1,000, secure the certificates. Due to the drainage pledge's nominal nature, we rate the certificates based on the GO debt rating of the town.

Officials intend to use series 2017 certificate proceeds to fund capital projects townwide.

The rating reflects our opinion 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 (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total-governmental-fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 47% of operating expenditures;
- Very strong liquidity, with total government available cash at 52.4% of total-governmental-fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt-and-contingent-liability position, with debt service carrying charges at 15.9% of expenditures and net direct debt that is 211.8% of total-governmental-fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Trophy Club's economy very strong. The town, with an estimated population of 12,053, is located in Denton and Tarrant counties in the Dallas-Fort Worth-Arlington MSA, which we consider broad and diverse. Trophy Club has a projected per capita effective buying income of 201% of the national level and per capita market value of

\$147,184. Overall, the town's market value grew by 13.1% over the past year to \$1.8 billion in fiscal 2017. The weight-averaged unemployment rate of the counties was 3.4% in 2016.

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

Strong management

We view Trophy Club's management as strong, with good financial policies and practices under our FMA 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 reflect three years of historical data with multiple scenarios generated regarding tax base growth, and the town has a strong record of conservative budgeting. Management presents monthly budget-to-actual reports to the town council with budget amendments as needed throughout the fiscal year. Trophy Club maintains a three-year financial plan with projections extending five years out for the general fund. It also maintains a rolling, five-year capital improvement plan.

The town reports investment holdings and performance quarterly and maintains a formally adopted investment-management policy. Trophy Club has formally adopted basic debt-management policies, including rate, amortization, and debt-to-AV limits. Its formally adopted reserve policy's goal is to maintain at least 30% of expenditures; management established this policy to ensure sufficient liquidity and funding for any unforeseen operational pressure or capital needs.

Strong budgetary performance

Trophy Club's budgetary performance is strong, in our opinion. The town had operating surpluses of 6% of expenditures in the general fund and 2.9% of expenditures across all governmental funds in fiscal 2016.

Management attributes its fiscal 2016 surplus to lower-than-expected expenditures. This includes some capital expenditures management expected to complete in fiscal 2016 but that it will now complete in fiscal 2017. For fiscal 2017, management reports property and sales tax revenue is in-line with the approved budget while operating expenditures are lower than expected due to vacant positions. However, officials expect to use approximately \$245,000 of fund balance to pay for capital expenditures, such as furniture, fixtures, and equipment associated with the new Town Hall. While we expect financial performance to remain strong in fiscal 2017, we believe the town will likely not experience an operating surplus greater than 5% of expenditures.

Although management is just beginning the budget process for fiscal 2018 and formal projections are currently unavailable, officials expect sales tax revenue to continue to increase as the town experiences additional retail development; they do not expect financial pressure on the budget over the next few fiscal years. Therefore, we believe the town will likely maintain its strong budgetary performance over the next few fiscal years.

Very strong budgetary flexibility

Trophy Club's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 47% of operating expenditures, or \$4 million. We expect available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

In fiscal 2017, officials expect a general fund balance decline of approximately \$245,000 due to the use of fund balance to pay for one-time capital expenditures related to the new Town Hall. Management is projecting an available fund balance of approximately \$3.6 million, or 42.5% of general fund expenditures, at fiscal year-end 2017. Despite this slight decrease, we believe reserves will likely remain very strong over the next few fiscal years.

Very strong liquidity

In our opinion, Trophy Club's liquidity is very strong, with total government available cash at 52.4% of total-governmental-fund expenditures and 3.3x governmental debt service in fiscal 2016. In our view, the town has strong access to external liquidity if necessary.

Our belief that Trophy Club has strong access to external liquidity reflects its historical issuance of GO debt. While Texas law allows municipalities to make investments we view as aggressive, the town's investments are limited to highly liquid state-investment pools. We expect the town's liquidity profile to remain very strong.

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 15.9% of total-governmental-fund expenditures, and net direct debt is 211.8% of total-governmental-fund revenue.

Town officials currently plan to issue approximately \$7 million of additional debt in fiscal 2020 to fund street improvements. A portion of the town's debt has been privately placed. We understand the terms are standard and do not contain any unusual provisions, such as acceleration, that could pressure liquidity. In addition, the town does not currently engage in variable-rate debt or swaps.

Trophy Club's pension contributions totaled 5.6% of total-governmental-fund expenditures in fiscal 2016. The town made its full annual required pension contribution in fiscal 2016.

Trophy Club participates in the Texas Municipal Retirement System, administered by Texas. Its required pension contribution is actuarially determined annually. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement No. 68, the town's net pension liability was \$2.8 million as of December 2015. The plan is 82.6% funded, using the fiduciary net position as a percent of the total liability. For additional details on Governmental Accounting Standards Board (GASB) Nos. 67 and 68, please see our report, titled "Incorporating GASB 67 And 68: Evaluating Pension/Other Postemployment Benefit Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect.)

Trophy Club also provides retiree health care benefits on a pay-as-you-go basis; however, costs incurred are minimal.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Trophy Club will likely maintain its strong financial performance and very strong reserves. In addition, we believe the town's very strong economic indicators and access to the broad and diverse Dallas-Fort Worth MSA provide additional rating stability. However, we believe the town's very weak debt profile will likely remain a constraining rating factor over the next few years. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

With all other factors remaining stable, if the town's debt profile were to improve significantly, we could raise the rating.

Downside scenario

If financial performance were to experience significant deterioration, leading to sustained decreases in reserves, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 16, 2017)

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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