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Summary:

Cibolo, Texas; General Obligation

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Credit Profile		
US$5.37 mil GO rfdg bnds ser 2019 due 02/01/2031		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the City of Cibolo, Texas' series 2019 general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's GO debt outstanding. The outlook is stable.

Credit summary and security

Cibolo continues to experience economic expansion with the addition of a major employer in the area and bolstered by its proximity to San Antonio. Although Cibolo has budgeted for modest deficits for planned uses of reserves in the general fund, we expect the city to maintain very strong reserves as a result of a strong management team that has historically kept reserves well above its formal policy level. However, the city continues to experience growth pressures, which should create the need for additional debt in the medium term. Cibolo's debt burden, which we consider to be very weak, remains the primary credit constraint.

The series 2019 GO bonds and certificates of obligation are payable from a direct and continuing ad valorem tax, levied within the limits prescribed by law, on all taxable property in the city. The certificates are additionally supported by a limited pledge (not to exceed $1,000) of the net revenues from the operation of the city's combined utility system. The maximum allowable rate in Texas is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50. The city's current levy is well below the maximum, at 46.74 cents, 17.96 cents of which is dedicated to debt service. Based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018), we do not differentiate between the city's limited-tax GO debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources. Proceeds from the bonds and the certificates will be used for various capital projects, including improvements to city services buildings, street improvements, and other projects.

The rating reflects our view of the following factors:

- 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;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2018, which closed with operating deficits in the general fund and at the total governmental fund level;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 41% of operating expenditures;
- Very strong liquidity, with total government available cash at 87.6% 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 profile, with debt service carrying charges at 24.9% of expenditures and net direct debt that is 349.4% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Cibolo's economy strong. City officials have estimated that strong population growth in recent years has increased the population to an estimated 30,225 as of 2018.The city is located in Guadalupe County in the San Antonio-New Braunfels MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 106.3% of the national level and per capita market value of $112,150. Overall, the city's market value grew by 1.9% over the past year to $2 billion in 2020. The county unemployment rate was 3.1% in 2018.

Cibolo is about 13 miles northeast of downtown San Antonio along Interstate 35. The city primarily functions as a residential suburb, offering residents easy access to leading employment centers throughout the MSA. Accordingly, the local economy has experienced modest growth in the retail, industrial, and housing sectors in recent years. We consider the taxable base very diverse, with the top 10 taxpayers representing only 4.79% of taxable value in fiscal 2018. Despite the loss of its top industrial taxpayer in 2017 following its bankruptcy, the city's taxable AV has demonstrated measured, year-over-year growth for the past decade, with 9.4% growth over the past three years.

Expected to drive near-term AV growth and economic strengthening is the recent announcement that Aisin AW, a Japanese manufacturer, will make an initial investment of $400 million to construct a new factory, which is expected to bring 900 jobs to the area. Furthermore, the 110-acre Cibolo Crossing retail development at the city's northern boundary adjacent to the interstate recently opened. With an 87,000-square-foot movie, bowling, and live music complex as the development's anchor, city officials anticipate significant benefits to both sales and property taxes, which are expected to strengthen further as additional phases of retail construction are completed. Management's economic outlook also projects ongoing strength in residential growth, with a number of subdivisions, multi-family projects, and a senior community center in various stages of development.

Strong management

We view the city'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.

Key practices include:

- Revenue and expenditure assumptions based on two-to-five years of historical trends with the consultation of outside sources;
- Monthly budget-to-actuals provided to council with the ability to amend as needed;
- Projections that go out five years; however, this is not a formal process and assumptions are lacking;

- A five-year capital improvement plan; however, it is not rolling;
- Formal investment policy that conforms with state statutes, and is reviewed by council annually, with statements reviewed quarterly;
- A formal reserve policy to maintain no less than 35% of operating expenditures in unassigned reserves, with any excess funds allowed to be spent on nonrecurring items; and
- The city lacks a formal debt management policy.

Adequate budgetary performance

Cibolo's budgetary performance is adequate, in our opinion. The city had operating deficits of 3.1% of expenditures in the general fund and of 1.6% across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could improve from 2018 results in the near term.

The city has maintained at least adequate budgetary performance in recent years, due in part to management's conservative practices that have led to year-end results regularly outperforming large planned deficits. Despite budgeting for a $519,000 general fund drawdown in fiscal 2018, revenues and expenditures outperformed expectations and the drawdown was closer to $360,000. The city has a formal reserve policy to maintain 25%-35% of budgeted expenditures in unassigned fund balance. As a result, anything over the 35% threshold is to be used for what the city considers to be one-time capital projects, leading to modest annual drawdowns on its reserves, and, in turn, slight deficits.

Taxes, including sales and property, accounted for about 73.5% of general fund revenues in fiscal 2018, with permits and fees (20%), and service fees (2.8%) representing the next-largest revenue sources--all of which have remained stable in recent years.

Cibolo again budgeted for a general fund drawdown in fiscal 2019, and current projections indicate that the city will likely draw on fund balance to finance capital projects related to the police and fire departments, as well as other minor projects related to parks and streets. The city has budgeted for another $400,000 drawdown for capital outlays in fiscal 2019. However, we expect results to come in better than budgeted given Cibolo's recent track record of outperforming its budget. Reserve use for capital outlays is expected to continue into 2020; however, we do not anticipate budgetary pressures because we would expect property rate increases to mitigate planned drawdowns.

Very strong budgetary flexibility

Cibolo's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 41% of operating expenditures, or $4.9 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.

The city has historically maintained very strong reserve levels, exceeding 40% operating expenditures in each of the past three fiscal years--providing substantial flexibility over its formal policy of 35%. Despite originally budgeting to draw on reserves by about $519,000 in fiscal 2018 for large one-time capital expenditures, Cibolo instead drew on unassigned fund balance by $360,000 due to outperformance of expectations. The fiscal 2019 budget indicates that the city may again draw on fund balance by as much as $400,000 for one-time capital projects, resulting in an unassigned balance of $4.5 million; however, even if this planned draw is fully realized, the unassigned balance remains above the city's formal policy level. And while management indicates that fund balance may be used to cash finance future capital outlays in a similar manner, no immediate plans exist to materially draw below Cibolo's current 35% policy level. Therefore, we expect budgetary flexibility to remain very strong in the near term.

Very strong liquidity

In our opinion, Cibolo's liquidity is very strong, with total government available cash at 87.6% 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.

Cibolo's strong access to external liquidity is demonstrated by its access to the market over the past two decades, which includes numerous GO-backed bond issuances. The city has historically maintained what we consider very strong cash balances, and despite projections for a drawdown in fiscal 2019 for capital projects, we do not believe its cash position will materially weaken in the near term. All of the city's investments comply with both Texas statutes and its own formal policy, and at the end of fiscal 2018 were held in certificates of deposit, agencies, municipal bonds, and local government investment pools--none of which we consider aggressive.

The city has about $10.22 million in privately placed debt outstanding that makes up about 15.6% of Cibolo's total direct debt; however, the private placements do not include acceleration or cross-default provisions, and--similar to the city's existing debt--are fixed-rate debt and contain no variable-rate components or permissive covenants. Therefore, we do not believe Cibolo has exposure to liquidity pressure from contingent liabilities, and do not expect the city's liquidity position to deteriorate from its very strong position in the near term.

Very weak debt and contingent liability profile

In our view, Cibolo's debt and contingent liability profile is very weak. Total governmental fund debt service is 24.9% of total governmental fund expenditures, and net direct debt is 349.4% of total governmental fund revenue.

After the issuance of the series 2019 GO bonds and certificates of obligation, Cibolo will have about $57.13 million of net direct debt outstanding. The city has no firm plans to issue additional debt over the next two years; however, given the level of growth pressures it is experiencing, we anticipate it will issue additional debt in the medium term. We do note that the city plans to continue to cash-fund capital projects as it aims to use reserves over 35% of operating expenditures for one-time capital expenses.

Cibolo's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.2% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

The city participates in the Texas Municipal Retirement System (TMRS), a nontraditional, joint-contributory, hybrid-defined benefit plan administered by the state. Cibolo's required pension contribution is its actuarially determined contribution, which is calculated at the state level, based on an actuarial study. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement No. 68, the city's net pension liability was measured as of Dec. 31, 2017, to be $1.45 million. The TMRS plan maintained a funded level of 88.57%, calculated as the plan's fiduciary net position as a percent of the total pension liability.

Cibolo also offers OPEB through the Supplemental Death Benefits Fund, a multiple-employer group-term life insurance plan operated by TMRS, to which it paid its full annual required contribution in fiscal 2018, which is less than 1% of expenditures.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our view of the city's stable and improving economy within the broad and diverse San Antonio-New Braunfels MSA, as well as its very strong budgetary flexibility and liquidity. It also reflects our expectation that Cibolo's debt profile will remain elevated, corresponding with anticipated growth and planned future debt issuances. Consequently, we do not expect to change the rating within the two-year outlook period.

Upside scenario

We could raise the rating if continued economic expansion results in improved wealth and income indicators, compared with those of peers, or if the city's overall debt profile were to improve while it achieves strong financial performance.

Downside scenario

We could lower the rating if the city's financial performance deteriorates, leading to sustained and significant drawdowns in reserves.

Related Research

- 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
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 2019 Update Of Institutional Framework For U.S. Local Governments