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Ratings

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Summary:
Jarrell, Texas; General Obligation

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Summary:

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Credit Profile		
US$14.825 mil comb tax and rev certs of oblig ser 2020 due 08/01/2045		
Long Term Rating	AA/Stable	New
Jarrell comb tax and rev certs of oblig		
Long Term Rating	AA/Stable	Affirmed
Lone Star Wtr Regl Wtr Auth, Texas		
Jarrell, Texas		
Lone Star Wtr Regl Wtr Auth (Jarrell)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AA' rating to Jarrell, Texas' $14.825 million series 2020 combination tax and revenue certificates of obligation (COs). At the same time, we affirmed our 'AA' rating and underlying rating (SPUR) on the city's existing COs and contract revenue bonds. The outlook is stable.

The series 2020 and existing certificates are secured by the city's ad valorem taxes, which are levied on all taxable property. Despite state statutory tax rate limitations, we do not differentiate between the city's limited-tax debt rating and its general creditworthiness. That's because the ad valorem taxes are collected from a broad tax base and there are no restrictions on what the limited tax can be used for, which supports our view of the city's overall ability and willingness to pay debt service. State statutes limit the ad valorem tax rate for cities to $1.50 per $100 of taxable assessed valuation (AV) for all purposes. In addition, the Texas attorney general will permit the allocation of $1.00 of the $1.50 maximum tax rate for ad valorem tax debt service. For fiscal 2020, the city's levy is well below the maximum, at 41.95 cents per $100 of AV, eight cents of which is dedicated to operations and 33.95 cents to debt service. The certificates are further payable by surplus net revenues of the city's water system not to exceed $1,000. We rate the bonds based on the general creditworthiness rating because the ad valorem taxes are not collected from a narrower or distinctly different tax base and there are no limitations on the fungibility of the city's resources, which supports our view of Jarrell's overall ability and willingness to pay debt service.

Proceeds of the series 2020 certificates will finance improvements to the city's waterworks and sewer system.

The city's 2015 contract revenue bonds are secured by Lone Star Regional Water Authority revenues received from Jarrell under a water system facilities installment sale contract between the city and the authority. The city has made a tax and revenue pledge to make all payments. Therefore, all the city payments are secured by the city's ad valorem taxes levied on taxable property within its borders and within the limits prescribed by state law and by surplus net revenues of the city water system. We rate the bonds based on the ad valorem limited-tax pledge, on par with the city's general creditworthiness.

Credit overview

Jarrell is a growing rural city located roughly 30 miles north of Austin. At this time, the city is roughly 10% developed, with significant development activities underway. Reflective of the city's size and limited operations, the size of the budget is relatively small, susceptible to swings in budgetary performance. Although the city's primary source of revenues is sales tax (64% of revenue), we believe that the city's performance will remain at least adequate as the city continues see sales tax revenue growth even with the recent business closures for COVID-19. The city has not been significantly affected by COVID-19 and has seen sales tax revenue growth as more people move into the city limits. Additionally, the city's reserves are very strong as a percentage basis, though they could quickly deteriorate should the city's revenues fall significantly.

The degree to which these factors or the broader recession result in economic or fiscal strain for Jarrell remains to be seen, though we again note that the city's very strong reserves position offers a meaningful hedge against potential revenue volatility and should also contribute to near-term credit stability. For our latest U.S. economic forecast, see "The U.S. Faces A Longer And Slower Climb From The Bottom" (published June 25, 2020, on RatingsDirect). See also "U.S. Real-Time Economic Data Suggests Hopeful Signs Of A Recovery Could Be Short-Lived" (July 16, 2020).

The ratings also reflect our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 118% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.9x total governmental fund expenditures and 151.5x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 1.3% of expenditures and net direct debt that is 431.6% of total governmental fund revenue, as well as high overall net debt at greater than 10% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

The rating incorporates our view regarding the health and safety risks due to the COVID-19 pandemic. Absent the implications of COVID-19, we consider the city's social risks to be in line with those of the sector. We analyzed the city's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are on par with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the ratings in response to a significant deterioration of the city's economy or its finances.

Upside scenario

We could raise the ratings if the city's income indicators improve to levels we consider comparable with those of higher-rated peers, budgetary performance stabilizes, and additional management policies and practices are formalized, all other credit factors remaining equal.

Credit Opinion

Very strong economy

We consider Jarrell's economy very strong. The city, with an estimated population of 1,106, is located in Williamson County in the Austin-Round Rock, Texas, MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 90.7% of the national level and per capita market value of $204,335. The city's market value grew by 1.8% over the past year to $226.0 million in 2021. The county unemployment rate was 2.8% in 2019.

Jarrell is a growing rural bedroom community located about 38 miles north of Austin, and 12 miles north of Georgetown in Williamson County. The city encompasses an incorporated area of 1.67 square miles and an extraterritorial jurisdiction of roughly 14 square miles. At this time, the city is 10% developed, and officials expect continued residential and commercial development in the near future as it benefits from the growth in the Austin-Round Rock MSA. Despite the current recession, the city's residential development remains strong, and management anticipates adding 1,000 more homes within the next year, due to housing affordability within the MSA. Additionally, the city plans to expand its retail and commercial businesses by providing the necessary infrastructure within the city limits.

According to the Bureau of Labor Statistics, the 2020 average monthly unemployment rate in Williamson County was 7% in June, below the national average. Residents mostly commute into Georgetown, Austin, and Temple for employment opportunities, and management indicates that large employers are stable and that there have been no significant closures or layoffs to date. We will continue to closely monitor the effects of the recession and heightened unemployment on the city's key economic indicators.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Highlights include the following:

- Management uses conservative budget assumptions and estimates revenues and expenditures based on current data. The budget can be amended as needed throughout the fiscal year with council approval, but is typically done quarterly, and management provides monthly budget-to-actual performance reporting to council.

- The city has a five-year capital improvement plan that is annually updated and provides project details and costs, but does not identify funding sources for all listed projects.
- The city's formal investment policy reflects the state guidance, and the city provides to the council monthly balance sheet reports that show investment earnings.
- The city has a formal reserve policy that requires general fund reserves sufficient to cover at least 25% of general fund expenditures, which it has historically exceeded.
- The city has a formal debt management policy that outlines allowable debt, and includes some qualitative guidelines such as structuring with 20-year maturity term and for level debt service.
- At this time, the city does not have a long-term financial plan that includes multiyear projections of revenues and expenditures.

Adequate budgetary performance

Jarrell's budgetary performance is adequate, in our opinion. The city had operating surpluses of 2.5% of expenditures in the general fund and of 20.4% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could moderate somewhat from 2019 results in the near term.

Our view of the city's performance reflects the adjustments for recurring transfers, use of bond proceeds, one-time revenues, and expenditures.

The city reported operating surpluses in recent years and expect to report a surplus in fiscal 2020. Officials attribute the surpluses to conservative financial practices and budget amendments throughout the year. The city's general fund revenues are reliant on sales taxes, which can be more volatile than property taxes. However, with the growth of residential development and population, the city's sales tax revenues consistently increased in recent years. Despite the closures related to COVID-19, the sales tax revenues are up by approximately $200,000 in fiscal 2020. In fiscal 2019, the primary operating revenue sources included sales taxes (64%), intergovernmental grants (9%), property taxes (6%), and other revenues (6%). Most of the city's ad valorem tax levy is for debt service (33.95 out of 41.95 cents), and most property tax collections flow through the debt service fund.

For the upcoming fiscal year 2021, the city adopted a surplus budget of $300,000. Officials note that the revenue assumptions are conservative, reflecting 5% sales tax revenue growth (versus actual growth of 7%-8%), with room to adjust for budgeted expenditures if needed. Accounting for potential volatility in budgetary performance related to COVID-19, we expect that budgetary performance will be adequate to strong over the outlook period. However, we note that the city's budgetary performance could fluctuate significantly from year to year due to the small size of the operating budget.

Very strong budgetary flexibility

Jarrell's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 118% of operating expenditures, or $2.2 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 maintained very strong budgetary flexibility in each of the past three fiscal years. Reserves typically far exceed the city's formal policy of maintaining fund balances sufficient to cover at least 25% of operating expenditures.

Management expects surplus results in fiscal 2020, and has no plans to draw on fund balance in the near term. Therefore, we expect budgetary flexibility to remain very strong throughout the outlook period.

Very strong liquidity

In our opinion, Jarrell's liquidity is very strong, with total government available cash at 1.9x total governmental fund expenditures and 151.5x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

The city has demonstrated its access to external liquidity through issuance of general obligation and revenue debt over the past decade. As of Sept. 30, 2019, the city's investments were held in bank accounts and certificates of deposit, which we do not consider aggressive. The city has issued five series of privately placed debt (series 2006, 2008, 2011, 2012, and 2017), which are secured by ad valorem tax revenues and net surplus revenues of the water and sewer system. The bond documents do not include permissive events of default or acceleration as a remedy for default. Therefore, we do not consider this debt to be a contingent liquidity risk.

Very weak debt and contingent liability profile

In our view, Jarrell's debt and contingent liability profile is very weak. Total governmental fund debt service is 1.3% of total governmental fund expenditures, and net direct debt is 431.6% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 15.0% of market value.

The city is the sole water and sewer provider for the Williamson County. Given the regional support and anticipated development within the city and the county limits, the city is expanding and improving its water and sewer systems and its wastewater treatment plant to support the growth and the infrastructure needs.

Most of the debt is in the enterprise fund, which we consider self-supporting. The enterprise fund reported operating surpluses and is levying sufficient rates and fees to support the upcoming payments. At this time, officials believe that the current rates can support the future payments, as the customer base continues to growth with the upcoming development.

At this time, the enterprise debt accounts for roughly $64 million. Roughly $31 million of debt is in notes payable to the Lone Star Regional Water Authority (LSRWA). Based on the contractual agreement, LSRWA issues the bonds to construct water storage and distribution of the facilities and once completed it will transfer it to the city. In exchange, the city will reimburse LSRWA for the costs related to the issuance, which is payable from the net surplus revenues of the system. Officials expect the series 2020 certificate proceeds to take care of the city's infrastructure needs within the next two years, and they do not have any additional debt plans.

Pensions and other postemployment benefits (OPEBs)

Jarrell does not provide pensions or OPEBs.

Strong institutional framework

We consider the institutional framework score for Texas cities strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments