S&P Global
Ratings

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Summary:
Lewisville, Texas; General Obligation

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Summary:

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Credit Profile		
US$16.24 mil certs of oblig ser 2021 dtd 05/01/2021 due 02/15/2041		
Long Term Rating	AAA/Stable	New
US$11.6 mil GO bnds ser 2021 dtd 05/01/2021 due 02/15/2037		
Long Term Rating	AAA/Stable	New
Lewisville GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Lewisville, Texas' anticipated $11.6 million series 2021 general obligation (GO) bonds and $16.24 million series 2021 certificates of obligations (COs). At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's existing GO debt. The outlook is stable.

The GO bonds and the CO bonds are payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city. The certificates are additionally secured from a limited pledge not to exceed $1,000 of net revenues of the city's combined waterworks and sewer system. Given the limited nature of the additional pledged revenues, we base our ratings on these obligations on the city's limited-tax GO pledge. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax debt and its general creditworthiness because the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the city's overall ability and willingness to pay debt service.

GO proceeds will be used to fund various street projects and recreational area improvements, and CO proceeds will be used to fund a new fleet and facility building for public services.

Credit overview

Despite the COVID-19 pandemic, the city's fiscal performance and reserves remain stable. Very strong fiscal management practices and ability to make midyear adjustments to the budget have offset weaker-than-normal collections of some revenue streams. The city's economic and debt metrics are stable, and we expect generally stable credit metrics as Lewisville enters fiscal 2021. Long-term effects of the pandemic will depend on the severity of the recession. (For more information on the coronavirus' effect on U.S. public finance, see our report "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021.) Future credit reviews will focus on what influence the current situation has on the city as well as its ability to respond in a timely and appropriate fashion to ensure maintenance of stable key credit metrics.

Key credit considerations include our view of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong 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 2020; Our assessment accounts for the fact that we expect budgetary results could moderate somewhat from 2020 results in the near term.
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 42% of operating expenditures;
- Very strong liquidity, with total government available cash at 76.1% of total governmental fund expenditures and 5.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 14.5% of expenditures and net direct debt that is 89.6% of total governmental fund revenue, as well as rapid amortization, with 71.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

Our analysis of these risks encompasses our review of ESG risks that currently exist. We acknowledge the ongoing pandemic and potential negative impacts it might have on various aspects of the city's creditworthiness. Absent COVID-19, we believe the social risks to be in line with the sector standard. We have also analyzed the environmental and governance risks and have determined that they are in line with our view of the sector standard.

Stable Outlook

Downside scenario

Although unlikely within the two-year outlook period, we could lower the rating if financial metrics deteriorate because of weak revenue collection or external factors such as the pandemic. We could also lower the rating if the economy deteriorates substantially.

Credit Opinion

Strong economy

We consider Lewisville's economy strong. The city, with an estimated population of 113,495, is located in Dallas and Denton counties in the Dallas-Fort Worth-Arlington, Texas, MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 103.9% of the national level and per capita market value of $103,345. The city's market value grew by 5.0% over the past year to $11.7 billion in 2021. The weighted-average unemployment rate of the counties was 3.0% in 2019.

Lewisville is favorably located in the Dallas-Fort Worth metroplex and is bisected by Interstate 35, which links the cities of Denton and Dallas. The transportation corridor has provided significant opportunities for commercial development and reinvestment in the Lewisville area and has supported, along with other commercial and residential growth, stability and annual increases in the city's total market value. The city is largely developed but has experienced infill development and redevelopment projects that have aided in its rejuvenation.

The tax base is sizable, at more than $11.73 billion, and mainly consists of single-family residential properties (37.7% of the total tax base), commercial and industrial properties (25.4%), and multifamily residential properties (17.0%). The top 10 taxpayers are diverse, make up a modest 7.5% of the total tax base, and include several apartment complexes, telecommunications, a community website, and a food distributor.

The tax base continues to expand, with the most recent growth of 5% and projected growth of 9% annually for the next two years. Residential and commercial development were strong through the pandemic, and officials anticipate these new developments will add roughly $160 million annually for the next two years. Additional tax base growth is expected from rising property values as well as the annexation of Castle Hills, which will add roughly $2.89 billion to the city's base.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Financial management practices include revenue and expenditure forecasting when compiling the budget based on historical trends and outside data sources, which typically result in favorable budget variance by year-end. Detailed budget-to-actual financial reports are available to city council at all times, with amendments made at any time during the fiscal year through a budget amendment ordinance, and presented to council at midyear and during the budget process, which runs from February through September. An annually updated five-year financial forecast that incorporates potential budgetary pressures is used and incorporated into the budget. A five-year capital improvement plan that identifies projects, funding sources, and costs is updated annually. Lewisville adheres to a formally adopted investment policy, with quarterly updates that detail investment holdings and performance. Its debt management policy establishes guidance on acceptable forms and uses of debt, and sets some parameters for issuance. In addition, the city adheres to a formal policy of maintaining at least 20% of general fund expenditures in reserve in the event of an emergency, and current reserves exceed the benchmark.

Adequate budgetary performance

Lewisville's budgetary performance is adequate, in our opinion, which accounts for our expectation that budgetary results could moderate somewhat from 2020 results in the near term. The city had operating surpluses of 4.3% of expenditures in the general fund and 27.8% across all governmental funds in fiscal 2020.

Our view of the budgetary performance includes recurring transfer in from the water sewer fund, recurring transfers out to capital projects funds and nonmajor governmental funds, and projects funded with bond proceeds.

A consistent history of stable fiscal performance is supported by good fiscal management practices and conservative budgeting that produce positive budget variances. For fiscal 2020, general fund revenues of $100.5 million outpaced expenditures of $96.3 million post transfers out in support of other funds. The city's operating revenues primarily were from property taxes (41% of the total) and sales taxes (30%). Given the uncertainty of the pandemic, officials implemented significant cuts earlier in the year to account for revenue uncertainty and declines from the pandemic. Midyear, the city adjusted the budget down to account for potential declines in sales tax and other revenue collections.

It also cut anticipated expenditures to ensure budget stability, reducing special events and positions, delaying certain capital improvement projects, and cutting funding for arts groups to meet the decrease in revenue. Despite the anticipated decline in sales tax revenues, the actual sales tax revenues continue to increase and outperform the budgeted revenues. Furthermore, the federal stimulus payment of $5.79 million also helped insulate against short-term revenue volatility.

For fiscal 2021, the city adopted a balanced budget. The budget assumptions include conservative revenue assumptions on the sales tax revenue. However, given that the sales tax revenues performed better than budgeted in fiscal 2020, and thanks to an additional federal stimulus payment of $9.59 million in May 2021, officials intend to make budget amendment to include delayed capital projects, economic development projects funded with available reserves, and salary increases that were paused during fiscal 2020. Although the city could potentially report a negative operating result for fiscal 2021, it has historically outperformed its budget and maintained strong budgetary performance.

Very strong budgetary flexibility

Lewisville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 42% of operating expenditures, or $40.1 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 consistently maintained general fund reserves at very strong levels, and in adherence to its formal reserve policy of maintaining at least 20% of operating expenditures, we expect Lewisville will maintain its very strong reserves in the medium term.

Very strong liquidity

In our opinion, Lewisville's liquidity is very strong, with total government available cash at 76.1% of total governmental fund expenditures and 5.3x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

The city has historically maintained what we consider very strong cash balances. In addition, we do not believe its cash position will decrease in the next two years. Currently, all of its investments comply with state guidelines. We do not consider these investments aggressive. We also understand the city does not have any exposure to contingent liabilities.

Adequate debt and contingent liability profile

In our view, Lewisville's debt and contingent liability profile is adequate. Total governmental fund debt service is 14.5% of total governmental fund expenditures, and net direct debt is 89.6% of total governmental fund revenue. Approximately 71.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Post-issuance, the city intends to approach the voters for additional authorization. The November 2021 ballot will request $70 million in GO debt with no levy increase to replace the police administrative building, which the city will issue over the next two years. While the series 2021 debt issuance will not affect the city's current debt profile, additional debt issuances could weaken its debt profile in the near term.

Pensions and other postemployment benefits (OPEB)

Lewisville's combined required pension and actual contributions totaled 8.6% of total governmental fund expenditures in 2020. The city made 100% of its required pension contribution in 2020.

We do not anticipate any near-term budgetary pressure as a result of the city's pension or OPEB obligations. Lewisville participates in the following plans:

- Texas Municipal Retirement System (TMRS), funded ratio of 89.1%, net pension liability of $36.4 million.
- OPEB health benefits plan, funded ratio of 83.3%, net OPEB liability of $931,000.

The city participates in the TMRS, which is a multiple-employer, public-employee retirement system. Under the state law governing TMRS, an actuary determines the contribution rate annually.

The city established an irrevocable trust in 2008 for the funding of OPEB health benefits as a single-employer, defined-benefit plan. Plan assets may be used only for the payment or reimbursement of benefits provided to retirees, in accordance with the terms of the plan. Lewisville provides comprehensive group medical benefits for employees at retirement who meet the eligibility requirements for OPEB. At this time, the OPEB trust balance is $5.28 million.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Related Research

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

Ratings Detail (As Of April 23, 2021)		
Lewisville GO rfdg and imp bnds		
Long Term Rating	AAA/Stable	Affirmed