S&P Global Ratings

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Summary:
Greenville, Texas; General Obligation

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Summary:

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Credit Profile		
US$67.625 mil combination tax & rev certs of oblig ser 2021 due 02/15/2051		
Long Term Rating	AA-/Stable	New
US$54.5 mil GO bnds ser 2021 due 02/15/2051		
Long Term Rating	AA-/Stable	New
Greenville GO		
Long Term Rating	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating and stable outlook to Greenville, Texas' roughly $67.625 million series 2021 combination tax and revenue certificates of obligation and roughly $54.5 million series 2021 general obligation (GO) bonds and affirmed its 'AA-' long-term rating and underlying rating (SPUR), with a stable outlook, on the city's existing GO debt.

The certificates and bonds are a direct obligation of the city, payable from the proceeds of a continuing, direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within its borders. The maximum allowable ad valorem tax 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 total tax rate is well below the maximum at 61.5 cents. The city does not levy ad valorem taxes on a narrower or distinctly different property tax base, and there are no limitations on the fungibility of resources available for debt-service payment. Therefore, we view the limited-tax pledge on par with the issuer credit rating (ICR), reflecting the city's general creditworthiness.

The certificates are also payable from a limited pledge of surplus net waterworks-and-sewer-system revenue, not to exceed $1,000. Because of the pledge's limited nature, the rating reflects our opinion of the strength of the ad valorem-tax pledge.

Officials intend to use series 2021 certificate proceeds to fund waterworks-and-sewer-system improvements, upgrade radio system infrastructure and public-safety communications, and construct a fire-administration and emergency-operations center building.

Officials intend to use series 2021 bond proceeds to pay for public improvements, including roads, streetscaping, streetlighting, right-of-way protection, and storm drainage.

After this issuance, the city will have approximately $193.9 million of direct debt, before accounting for self-supporting water-and-sewer-fund debt.

Credit overview

Greenville, part of the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA), is experiencing economic growth, as seen in AV growth recently and increased property and sales taxes. However, due to infrastructure needs to keep up with economic expansion, the city has elevated debt, further weakened by a poorly funded Firemen's Relief & Retirement Fund (FR&R) pension plan, which could become a contingent-liability risk. The city maintains, what we consider, very strong general fund reserves at roughly 29% of operating expenditures and good financial-management policies under our Financial Management Assessment (FMA) methodology that assist in maintaining stable operations.

The rating reflects our view of the city's:

- Adequate economy, with market value per capita of $90,411 and projected per capita effective buying income at 64.5% of the national level, that benefits from access to a broad and diverse MSA;
- Strong financial management, with good financial policies and practices under our FMA methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and breakeven operating results at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with available fund balance in fiscal 2020 at 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 67.4% of total governmental fund expenditures and 4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt-and-contingent-liability profile, with debt service carrying charges at 16.9% of expenditures and net direct debt that is 506.1% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We have analyzed ESG risks relative to the city's economy, finances, budgetary outcomes, and debt profile and have determined environmental and governance risks are in-line with the sector standard. We view Greenville's connection to the Dallas-Fort Worth-Arlington MSA as a social opportunity due to long-term expectations for rapid population growth and strong housing demand. We, however, think growth-related capital spending and higher city service demands could challenge near-term budgetary performance and reserves.

Stable Outlook

Upside scenario

We could raise the rating if the local economy were to improve, including income, comparable with higher-rated peers, coupled with material improvements to the city's debt profile.

Downside scenario

We could lower the rating if high pension costs were to lead to reserve drawdowns, resulting in budgetary performance deteriorating to levels we no longer consider very strong.

Credit Opinion

Adequate economy

We consider Greenville's economy adequate. The city, with a population estimate of 28,203, is in Hunt County in the Dallas-Fort Worth-Arlington MSA, which we consider broad and diverse. Projected per capita effective buying income is 64.5% of the national level and per capita market value is $90,411. Overall, market value has grown by 8.2% during the past year to $2.5 billion in fiscal 2022. County unemployment was 6.5% in 2020.

Greenville is approximately 45 miles northeast of Dallas, near Lake Tawakoni, a major water supply facility and a popular recreation area for East Texas. Greenville is the county's largest city and county seat. Interstate 30 runs through the city and provides residents access to downtown Dallas and much of the Metroplex. Greenville has had strong property value growth recently, displayed by AV growth since fiscal 2014 and more recently 8.2% AV growth from fiscal years 2021-2022 to $2.5 billion. Management attributes much AV growth to existing property values increasing and residential growth; however, there has been much economic development in the city.

Being part of the Dallas-Fort Worth-Arlington MSA, the city benefits from a diverse tax base. L3 Harris, an organization specializing in modernizing and maintaining aircraft, is the city's leading taxpayer and employer with roughly 6,500 employees. Greenville Municipal Airport is connected to L3 Harris because the company leases the bulk of airport facilities. Other leading taxpayers include:

- Cytec Engineered Materials Inc.,
- Weatherford Artificial Lift, and
- Fritz Industries, Inc.

Leading employers include a health-care facility; a school district; retail; manufacturing; government; and oil production, representing local economic diversity. Based on recent economic growth and expectations for further growth, we think Greenville's near-term economy will likely remain stable.

Strong management

We view the city's financial management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Management uses zero-based budgeting and up to 10 years of historical financial performance results to assist in formulating budget assumptions. It provides the city council with monthly reports on budget-to-actual financial updates and investment holdings and performance. Management can amend the budget throughout the year, albeit generally only once. Management conducts some informal financial forecasts to assist in formulating the budget. The city maintains a formal five-year capital improvement plan it updates annually that outlines projects, respective costs, and funding.

The city's formal investment- and debt-management policies are in-line with state guidelines. However, in our view, the policies do not provide material guidance for debt-affordability measures. In addition, management maintains a formal fund-balance policy that requires holding a minimum 15% of expenditures in reserve; it, however, targets 20%. The city has historically complied with this policy.

The city regularly trains employees on cybersecurity risks, including random testing and remedial training. There has not been a major cybersecurity incident, and Greenville holds cybersecurity insurance.

Strong budgetary performance

Greenville's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund at 0.7% of expenditures and balanced results across all governmental funds at 0.3% in fiscal 2020.

In assessing budgetary performance, we have adjusted for recurring net operating transfers. Prior to accounting for net operating transfers, the city had positive operating results. However, management attributes the operating deficit in fiscal 2019 to cash funding various one-time capital projects, as it has done historically.

In fiscal 2020, property and sales taxes each generated 35% of general fund revenue and franchise fees accounted for 14%. Fiscal 2020 results showed a modest surplus, which officials attribute to economic growth, particularly increased sales tax revenue of 5.3% over fiscal 2019 results. The city outperformed budgeted results by roughly $845,000, after budgeting for a deficit, which it normally does to fund capital one-time expenditures.

After budgeting conservatively to account for any COVID-19-related uncertainty, officials advise fiscal 2021 is tracking to end with roughly a $2.6 million general fund surplus, which they plan to spend down next year for capital-outlay drainage projects and a few other capital improvements.

Budgeting for fiscal 2022 is currently underway. The fiscal 2022 budget contains more expenditures than fiscal 2021, including merit raises for employees and approximately $2.5 million in capital projects.

The city has received $1.3 million of CARES Act money, which it used to reimburse fire-department salaries and COVID-19-related expenditures, as well as vaccination efforts. The city expects $7.1 million from the American Rescue Plan Act of 2021, which we understand it will put toward water-and-sewer infrastructure.

While Greenville cash funds capital expenditures on a recurring basis, we think that expenditures are somewhat discretionary and that management could reduce them if it were to require spending flexibility. Therefore, we expect budgetary performance will likely remain strong during the next two fiscal years.

Very strong budgetary flexibility

Greenville's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2020 at 29% of operating expenditures, or $6.6 million.

The city has historically maintained very strong reserves, in excess of its formal fund-balance policy of maintaining a minimum fund balance at 15%-20% of operations. Due to cash funding one-time capital projects, available fund balance has decreased during the past several fiscal years. Officials want to spend down excess fund balance while making the best available use of taxpayer dollars.

Management intends to maintain fund balance as close to its target as possible, using reserves in excess of the target for one-time capital projects. Management does not currently plan to draw on fund balance materially; therefore, we posit budgetary flexibility will likely remain very strong during, at least, the next two fiscal years.

Very strong liquidity

In our opinion, Greenville's liquidity is very strong, with total government available cash at 67.4% of total governmental fund expenditures and 4x governmental debt service in fiscal 2020. In our view, the city has strong access to external liquidity if necessary.

In our view, Greenville has demonstrated strong access to external liquidity by issuing GO debt during the past 20 years. While Texas allows somewhat permissive investments, in our view, we do not consider investments aggressive because Greenville holds a majority in U.S agency and treasury securities and state investment pools.

Greenville privately placed series 2013 certificates; series 2014 and 2015 GO bonds; and series 2014 GO refunding bonds, which combined for more than $10.75 million in debt outstanding. Privately placed documents do not include nonstandard events of default; cross-default; or acceleration provisions that present contingent-liquidity pressure, in our opinion. Due to these factors, we expect liquidity will likely remain very strong during the next few fiscal years.

Very weak debt-and-contingent-liability profile

In our view, Greenville's debt-and-contingent-liability profile is very weak. Total governmental fund debt service is 16.9% of total governmental fund expenditures, and net direct debt is 506.1% of total governmental fund revenue.

Upon the issuance of series 2021 GO bonds and certificates of obligation, Greenville will have approximately $158.1 million in net debt outstanding, accounting for self-supporting debt. Officials do not currently have any immediate debt plans; however, they eventually expect airport-infrastructure and downtown-revitalization projects. Overall, we think debt will likely remain elevated during the next few fiscal years.

Pension and OPEB highlights:

- In our opinion, Greenville's large pension and OPEB obligation is a credit weakness.
- Greenville's combined required pension and actual OPEB contribution totaled 9.8% of total governmental fund expenditures in fiscal 2020. It made the full required pension contribution in fiscal 2020. The largest pension plan is 47.6% funded.

The city participates in:

- Texas Municipal Retirement System (TMRS), with a funded ratio of 96% and a net pension liability of $4.92 million;
- FR&R--a single-employer, defined-benefit pension plan covering Greenville's firemen and certain employees of the public-safety communications division--with a net pension liability of $15.7 million; and
- Greenville's OPEB, with a net liability of $1.1 million.

TMRS is an agent plan with jointly managed assets. Although the city funds 100% of its actuarially determined contribution, fiscal 2020 actual contributions fell slightly short of our static- and minimum-funding-progress metrics. TMRS uses certain assumptions that could increase contribution volatility, including a 6.75% discount; however, there are offsetting factors. (For more information on TRS and Texas' pension landscape, see the article, titled "Pension Spotlight: Texas," published Feb. 25, 2020.)

In fiscal 2020, Greenville made 100% of the statutorily required contribution to FR&R. We consider the statutory contribution a weak funding discipline. FR&R was 47.6% funded in 2020. With current contribution practices, we see no indication funding will likely improve substantially during the next few fiscal years. Greenville's FR&R contribution rate is currently 19.3%. Furthermore, the city's discount is 7.75%. However, at the current contribution rate, pension liability growth is outpacing contributions. Our view of the plan will likely deteriorate further if updated actuarial assumptions or further updates do not positively affect unfunded liabilities.

Greenville provides OPEB, specifically medical and dental, to eligible city retirees and their spouses and dependents. It has elected to fund OPEB on a pay-as-you-go basis. Greenville also provides group-term life insurance through the TMRS-operated supplemental-death-benefits fund; the city paid annual required contributions in fiscal 2020.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 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 September 1, 2021)		
Greenville GO		
Long Term Rating	AA-/Stable	Affirmed
Greenville GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Greenville GO (AGM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Greenville GO (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.