S&P Global Ratings

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Summary:

San Angelo, Texas; General Obligation

Primary Credit Analyst:
Katy Vazquez, New York (1) 212-438-1047; katy.vazquez@spglobal.com

Secondary Contact:
Bikram Dhaliwal, Dallas (1) 214-468-3493; bikram.dhaliwal@spglobal.com

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Credit Profile		
US$16.0 mil comb tax and ltd surplus rev certs of oblig ser 2022 dtd 06/01/2022 due 02/15/2042		
Long Term Rating	AA/Stable	New
San Angelo GO		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to San Angelo, Texas' approximately $16 million series 2022 combination tax and limited surplus revenue certificates of obligation and affirmed its 'AA' rating, with a stable outlook, on the city's existing GO debt and certificates of obligation.

San Angelo's GO bonds and certificates of obligation constitute direct obligations 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; a waterworks-and-sewer-system surplus-revenue pledge, which might not exceed $1,000, further secures the certificates. Due to the limited nature of the surplus revenue pledge, our rating reflects the strength of the limited ad valorem tax.

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 77.66 cents, 9.36 cents of which it dedicates to debt service. Based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, on RatingsDirect, we view the limited-tax GO debt pledge on par with the issuer credit rating, reflecting the city's general creditworthiness. 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 the payment of debt service.

Officials intend to use series 2022 certificate proceeds for various improvements citywide, including streets, roads, bridges, sidewalks, drainage, lighting, and landscaping.

After this issuance, the city will have approximately $82.6 million of net direct debt, accounting for self-supporting debt from its waterworks-and-sanitary sewer system.

Credit overview

San Angelo's tax base has steadily been increasing, which we think will likely continue due to residential and commercial growth, coupled with good financial policies and procedures; in our opinion, this will likely continue to keep reserves far in excess of the city's fund-balance policy.

While we do not view pension and other postemployment benefit (OPEB) liabilities as an immediate credit risk, we acknowledge the weak funding of San Angelo Firemen's Relief & Retirement Fund (SAFRRF). Although the city has been addressing this through contribution increases during the past few fiscal years, SAFRRF' weakness could negatively pressure the rating if funding were to deteriorate and SAFRRF-associated costs were to escalate, leading to budgetary pressure.

The rating reflects our view of the city's:

- Adequate economy that benefits from a local stabilizing institutional influence;
- Strong financial management, with good financial-management policies and practices under our Financial Management Assessment (FMA) methodology, and a strong Institutional Framework score;
- Strong budgetary performance despite an operating deficit in the general fund in fiscal 2021, and very strong liquidity and reserves; and
- Weak debt-and-contingent-liability profile with additional debt expected and large pension and OPEB obligation.

Environmental, social, and governance

The rating incorporates our view of environmental, social, and governance (ESG) risks relative to San Angelo's economy, management, financial measures, and debt-and-liability profile and have determined all are neutral in our analysis.

Stable Outlook

Downside scenario

We could lower the rating if the city's fixed cost burden were to weaken materially, either through additional debt or increased pension contributions, leading to weaker budgetary performance and lower available reserves.

Upside scenario

We could raise the rating if economic expansion were to lead to improved wealth and income.

Credit Opinion

An adequate, but stable, local economy, benefitting from a stabilizing institution and ongoing development

San Angelo, in west-central Texas, is approximately 90 miles southwest of Abilene. San Angelo serves as the principal commercial center for the ranching and farming industry, which covers a trade area of 14 different counties in Concho Valley. In addition to agriculture, the local economy largely includes mineral production, manufacturing, health care, education, and military employers. We consider the economy adequate with income below San Angelo's peers; it, however, benefits from a stabilizing institution, Goodfellow Air Force Base, the city's leading employer. Other leading employers include:

- Shannon Health System (4,896 employees),
- San Angelo Independent School District (2,332), and
- Angelo State University (1,323).

The local tax base is very diverse with the 10 leading taxpayers accounting for only 8% of taxable AV. The tax base continues to grow, increasing by 12% during the past five fiscal years to $5.9 billion in fiscal 2022. Officials report there are various new developments in the city, including a new $9 million apartment complex and multiple new retail stores and restaurants. San Angelo is the main railyard for Texas Pacifico Transportation Ltd., connecting the Mexico rail system to the main U.S. rail corridors in Fort Worth, which is experiencing high demand for shipping. One airline services San Angelo, and the city has become a popular destination for military-practice landings.

As the city has been experiencing modest growth in the local economy from new and ongoing developments, we expect the economy will likely remain stable during the next few years, as it has been historically.

Strong management with good financial-management policies, practices

Highlights include management's:

- Use of between three years and five years of historical data, as well as consulting with outside sources to generate revenue and expenditure assumptions used in the budget process;
- Formal long-term financial planning with comprehensive multiyear projections forecasting five years out;
- Presentation of budget-to-actual results to the city council monthly--It can make amendments to the budget as needed;
- Adherence to a formal investment-management policy that provides the council with monthly returns-and-holdings updates;
- Formal reserve policy that requires maintaining a minimum fund-balance reserve equal to 75 days' cash on hand, or 20.8% of expenditures; and
- Maintenance of a rolling five-year capital-improvement plan linked to the operating budget that identifies funding for capital projects.

The city lacks a formal debt-management policy. We note the city takes steps to mitigate cybersecurity risk.

Stable finances with multiyear surpluses before a drawdown in fiscal 2021 with very strong reserves

Our assessment of operating performance includes adjustments to account for recurring interfund transfers, as well as expenditure adjustments to reflect debt-funded capital expenditures. Following three years of operating surpluses, the city recorded an operating deficit in fiscal 2021. This was largely due to capital outlay. The city derives general fund revenue from a diverse and historically reliable revenue mix. For fiscal 2021, property taxes generated 48% of general fund revenue, followed by sales tax at 28% and charges for services at 10%. Property taxes outperformed the budget by $900,000 and sales taxes by $1.8 million.

The fiscal 2022 general fund budget was a 3% increase from fiscal 2021. Although the city adopted a $500,000 deficit budget as a conservative tactic, it expects to outperform it and end with a surplus. At this point in fiscal 2022, both property tax and sales tax revenue are higher than expected.

The city's total allocation from American Rescue Plan Act of 2021 is approximately $16.6 million, half of which it received in fiscal 2021 and the other half it expects to receive in fiscal 2022, which will add to already strong reserves. It will use a portion of the funds for a stormwater infrastructure project. The rest of the use for funds has not been decided yet.

The city does not currently have any immediate plans to spend down reserves. Its formal reserve policy requires maintaining fund balance at 20.8% of expenditures, or 75 days' cash on hand, which it has historically outperformed. We expect available fund balance will likely remain more than 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city does not have any private placements or contingent liabilities that could materially affect liquidity during the next few fiscal years.

A weak debt profile with additional issuances expected

Postissuance, San Angelo will have approximately $82.6 million in net direct debt outstanding. Management currently plans to issue $16 million in certificates of obligation and $14 million in revenue bonds for the water system, which we expect will eventually be self-supporting. Despite an elevated debt profile, carrying charges are manageable at 6.7%; we expect additional issuances will not weaken the debt profile materially.

Pension and OPEB

In our opinion, San Angelo's large pension and OPEB obligation is a credit weakness. While we do not view pension and OPEB liabilities as an immediate credit risk for the city, we acknowledge the weak funding of SAFRRF. Plan weakness could negatively pressure the rating if funding metrics were to deteriorate or if costs associated with the plan were to escalate and pressure the budget.

As of Dec. 31, 2020, San Angelo participates in:

- SAFRRF, which is 65.9% funded, with a net pension liability of $40.1 million;
- Texas Municipal Retirement System (TMRS), which is 87.1% funded, with a net pension liability of $33.3 million; and
- San Angelo's single-employer retiree health-insurance plan, which uses pay-as-you-go funding, with a net liability of $96.8 million.

San Angelo maintains SAFRRF, a single-employer pension plan available to firefighters. To shore up SAFRRF funding, the employee contribution rate has increased during the past several years. SAFRRF's funding increased to 65.9% as of Dec. 31, 2020, following raising the discount rate to 7.8% from 6.5% as of Dec. 31, 2018. We view these assumption changes negatively because the higher discount is likely to lead to contribution volatility in the event SAFRRF cannot meet underlying assumptions. We consider a discount rate above 6% aggressive.

TMRS is an agent plan with jointly managed assets. Although the city funds 100% of its actuarially determined contribution, fiscal 2021 actual contributions fell just short of our minimum-funding-progress metric. However, contributions exceeded our static-funding metric, making some funding progress. TMRS uses certain assumptions that could increase contribution volatility, including a 6.75% discount; however, there are offsetting factors. (For more information on Texas' pension landscape, see "Pension Spotlight: Texas," published Feb. 25, 2020.)

Strong Institutional Framework

The Institutional Framework score for Texas municipalities is strong.

San Angelo, Texas Select Key Credit Metrics

	Most recent	--Historical information--		
		2021	2020	2019
Adequate economy				
Projected per capita effective buying income as a % of U.S.	81.8			
Market value per capita ($)	59,029			
Population			99,973	101,441
County unemployment rate(%)			6.3	
Market value ($000)	5,901,272	5,734,046	5,537,326	
10 leading taxpayers as a % of taxable value	8.0			
Strong budgetary performance				
Operating fund result as a % of expenditures		(9.5)	0.6	13.3
Total governmental fund result as a % of expenditures		1.0	3.7	14.1
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		53.6	55.9	58.7
Total available reserves ($000)		46,877	46,442	46,324
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		101.7	96.4	81.4
Total government cash as a % of governmental fund debt service		1,517.3	1,216.1	985.4
Strong management				
Financial Management Assessment	Good			
Weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		6.7	7.9	8.3
Net direct debt as a % of governmental fund revenue	76.2			
Overall net debt as a % of market value	3.4			
Direct debt 10-year amortization (%)	60.5			
Required pension contribution as a % of governmental fund expenditures		8.1		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		3.1		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

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
- 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

- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 25, 2022)		
San Angelo GO		
Long Term Rating	AA/Stable	Affirmed
San Angelo GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed