FitchRatings

Public Finance
Tax-Supported
U.S.A.

San Angelo, Texas

New Issue Summary

Sale Date: Scheduled to be sold via competitive bid on June 9.

Series: $16,000,000 Combination tax and limited surplus revenue certificates of obligations, series 2022.

Purpose: Proceeds from the sale of the certificates will be used for constructing and improving streets, roads, alleys, bridges and sidewalks including related utility relocation, drainage, signalization, landscaping, screening walls, lighting and signage; and paying the costs of issuing the certificates.

Security: Payable from a combination of the levy ad valorem tax on all taxable property within the city, and a limited pledge of surplus net revenues (not to exceed $1,000) of the city's waterworks and sewer system.

The 'AA+' IDR and GO and CO ratings reflect the city's favorable revenue framework, strong reserve position, and low liability burden. Strong budgeting practices and significant revenue-raising capacity provide flexibility in the case of economic downturns.

Economic Resource Base: San Angelo is the seat of Tom Green County and has an estimated population of 100,000, encompassing 59 square miles in west-central Texas. Population growth has been modest but steady in recent years.

Key Rating Drivers

Revenue Framework: 'aaa': Fitch expects San Angelo will continue to benefit from strong revenue growth due to steady demographic and economic expansion. The city's revenue-raising capacity remains substantial relative to expected modest revenue volatility.

Expenditure Framework: 'aa': Fitch expects expenditures to grow roughly in line with revenues. Solid expenditure flexibility is aided by strong workforce control and moderate carrying costs.

Long-Term Liability Burden: 'aaa': The long-term liability burden is low relative to the resource base. The Fitch-adjusted net pension liability and overlapping debt comprise the largest portion of the liability. Direct debt plans appear affordable and are not expected to materially change the burden.

Operating Performance: 'aaa': Fitch expects the city to maintain a high degree of financial flexibility through economic cycles based on its solid expenditure flexibility and substantial independent revenue-raising capacity. The city's financial cushion is ample relative to the historically low volatility of general fund revenues.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A sustained moderation in carrying costs below 10% of spending that leads to a higher expenditure flexibility assessment.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Sustained diminished revenue growth below the pace of U.S. GDP;
- Acceleration of spending to levels consistently above revenue growth and subsequent weakening of financial resilience.

FACT Tools

Ratings

Long Term Issuer Default Rating	AA+

New Issue

$16,000,000 Combination Tax & Limited Surplus Revenue Certificates of Obligation, Series 2022	AA+

Outstanding Debt

Combination Tax & Limited Surplus Revenue Certificates of Obligation	AA+
General Obligation Refunding Bonds	AA+
Tax Notes	AA+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates San Angelo, TX's $16 Million Certificates of Obligation 'AA+'; Outlook Stable (May 2022)

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Current Developments

The city's primary revenue sources, property and sales taxes, were not adversely impacted during the pandemic as both posted gains in fiscal years 2020 and 2021. Due partly to pay-go capital outlays, the fiscal 2021 audit did post an $8.3 million (8.5% of spending) general fund net deficit, but the unrestricted fund balance remained ample at 48% of expenditures and transfers out. The fiscal 2022 budget was adopted as balanced and year-to-date revenue and expenditures point to a surplus.

The city received $5.5 million in Coronavirus Aid, Relief, and Economic Security CARES Act funds, which it directed to public safety. The city was allocated over $16 million in American Rescue Plan Act (ARPA) funds, half of which was received in fiscal 2021 and was earmarked for drainage improvements. The city's remaining ARPA fund allocation is anticipated in fiscal 2022.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	5/23/22
AA+	Revised	Stable	4/30/10
AA	Upgraded	Stable	7/03/07
AA-	Affirmed	Stable	8/05/04
AA-	Assigned		10/10/01

Credit Profile

The city's economy is diverse, anchored by agriculture, education, healthcare, government, telecommunications, and energy. A sizeable military presence at nearby Goodfellow Air Force Base, the city's largest employer with roughly 5,300 employees, provides stability. The second largest employer with nearly 4,900 employees is Shannon Health System hospital and clinics.

The city has also benefitted from its location near the Permian Basin, resulting in some increased economic activity but also increased exposure to energy sector volatility, especially in the form of sales tax revenues. The city's tax base is somewhat insulated from the boom and bust cycle, as the city sits on the periphery of drilling activity; assessed values (AV) have shown steady growth every year since fiscal 2013.

Revenue Framework

Property taxes average about 48% of general fund revenues, followed by sales taxes at about 28%. In line with its typical historical growth, Fitch expects the city's general fund revenues to grow above US GDP and inflation, fueled by steady demographic and economic expansion.

Steady AV growth has allowed management to gradually reduce the total property tax rate from $0.8683 per $100 AV in fiscal 2005 to $0.776 in fiscal 2022. San Angelo's total ad valorem tax rate provides ample capacity below the statutory tax rate cap of $2.50 per $100 AV. Any increase in the operating tax rate that produces an annual operating levy increase of more than 3.5% (the voter approval tax rate for most local taxing units) requires a ratification election. The revenue cap does not apply to debt service tax levies; the city's fiscal 2022 debt service tax rate is $0.0936 out of the total rate.

Expenditure Framework

Public safety made up more than half of general fund spending at about 51% in fiscal 2021. Spending growth in that area has remained stable, while other expenditures have increased, primarily general government. However, public safety is more than three times larger than general government.

The pace of spending on operating functions is likely to remain in line with to modestly above revenue growth. Fitch does not anticipate notable growth-related pressure on spending given the trend of modest population gains.

The city maintains adequate expenditure flexibility through significant control of workforce and moderate carrying costs for debt service, retiree pension, and other post-employment benefits. Fiscal 2021 carrying costs declined to 17.5% of governmental spending from 20% in fiscals 2018-2020. Inclusive of the current offering, annual debt service is structured to decline over time, reflective of a rapid principal pay out rate of 72% in 10 years. Debt service has remained stable at about 7%-8% of expenditures as some debt rolls off and additional issuances are sold. Based on a measured pace of debt issuance, Fitch expects carrying costs to remain moderate and allow for a solid level of expenditure flexibility.

Long-Term Liability Burden

Inclusive of the current offering, the city's long-term liability burden is low at approximately 6% of personal income and is comprised primarily of the Fitch-adjusted net pension liability (39% of total long-term liability) and overlapping debt (35%). General government capital needs are primarily for streets and are being funded with a series of COs over a ten-year period. The last of the issues is scheduled for 2024, following which the city will reevaluate its needs for capital improvement. Taking into account the direct debt issuance schedule and amortization rate, Fitch believes the liability burden will remain low over the medium term.

The city participates in the Texas Municipal Retirement System (TMRS), an agent multiple-employer defined benefit pension plan. Additionally, the city pays into the Firemen's Relief and Retirement Fund (FRRF), a single-employer defined benefit pension plan. Under GASB Statement 68, the city reports a fiscal 2021 net pension liability (NPL) of $73.4 million for both plans combined, with fiduciary assets covering 81% of total pension liabilities at the plans' 6.75% (TMRS) and 7.8% (FRRF) investment return assumptions. Using Fitch's standard 6% investment return assumption, the NPL rises to $123.4 million and the ratio of assets to liabilities declines to 71%.

Operating Performance

Fitch believes the city maintains an exceptionally strong capacity to manage challenges associated with economic downturns, including the current recovery period. The city has maintained reserves of about $46 million for the last three years, equal to approximately 50% of expenditures and transfers out. These reserve levels should allow the city to manage through periods of economic weakness while preserving a high level of fundamental financial flexibility. Based on the scenario from the Fitch Analytical Stress Test (FAST) model, Fitch expects the city to maintain a high level of financial resilience.

The city budgets conservatively and makes mid-year adjustments according to interim financial performance. The city in recent years has used operating surpluses for pay-go capital spending and to boost general fund reserves. Fiscal 2021 audited results showed a deficit of $8.3 million, mostly attributable to capital outlay. Unrestricted reserves were unchanged at about $47 million, or 48% of spending and transfers out. The city expects fiscal 2022 to result in a $2 million-$3 million general fund surplus.

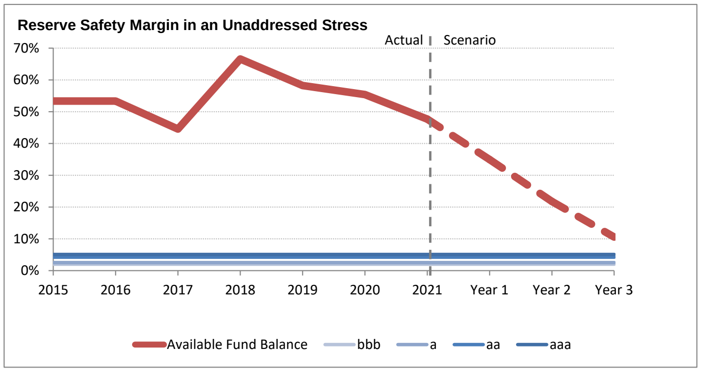
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

San Angelo (TX)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

Fitch believes the city maintains an exceptionally strong capacity to manage challenges associated with economic downturns, including the current recovery period. The city has maintained reserves of about $46 million for the last three years, equal to approximately 50% of expenditures and transfers out. These reserve levels should allow the city to manage through periods of economic weakness while preserving a high level of fundamental financial flexibility. Based on the scenario from the Fitch Analytical Stress Test (FAST) model, Fitch expects the city to maintain a high level of financial resilience.

Scenario Parameters:			Year 1	Year 2	Year 3
GDP Assumption (% Change)			(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)			2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-1%**	*Case Used:* **Moderate**	(1.7%)	1.2%	4.0%
Inherent Budget Flexibility				High	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2015	2016	2017	2018	2019	2020	2021	Year 1	Year 2	Year 3
Total Revenues	66,987	72,606	69,542	73,293	80,873	75,061	77,552	76,233	77,113	80,208
% Change in Revenues	-	8.4%	(4.2%)	5.4%	10.3%	(7.2%)	3.3%	(1.7%)	1.2%	4.0%
Total Expenditures	66,901	72,209	77,441	78,276	77,742	82,051	85,856	87,573	89,324	91,111
% Change in Expenditures	-	7.9%	7.2%	1.1%	(0.7%)	5.5%	4.6%	2.0%	2.0%	2.0%
Transfers In and Other Sources	6,404	5,567	6,606	24,333	9,483	9,420	12,638	12,423	12,567	13,071
Transfers Out and Other Uses	467	483	2,081	743	2,135	1,961	12,664	12,918	13,176	13,439
Net Transfers	5,938	5,084	4,525	23,590	7,349	7,459	(26)	(494)	(609)	(368)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	6,024	5,481	(3,374)	18,607	10,480	470	(8,329)	(11,834)	(12,820)	(11,271)
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	8.9%	7.5%	(4.2%)	23.5%	13.1%	0.6%	(8.5%)	(11.8%)	(12.5%)	(10.8%)
Unrestricted/Unreserved Fund Balance (General Fund)	35,933	38,797	35,424	52,616	46,505	46,540	46,977	35,143	22,323	11,052
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	35,933	38,797	35,424	52,616	46,505	46,540	46,977	35,143	22,323	11,052
Combined Available Fund Bal. (% of Expend. and Transfers Out)	53.3%	53.4%	44.5%	66.6%	58.2%	55.4%	47.7%	35.0%	21.8%	10.6%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	27.2%	13.6%	8.5%	5.1%	3.4%
Reserve Safety Margin (aa)	20.4%	10.2%	6.8%	4.3%	2.6%
Reserve Safety Margin (a)	13.6%	6.8%	4.3%	2.6%	2.0%
Reserve Safety Margin (bbb)	5.1%	3.4%	2.6%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.