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Ratings

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Summary:

Granite Shoals, Texas; General Obligation

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Summary:

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Credit Profile		
Granite Shoals GO		
Long Term Rating	A/Stable	Upgraded

Rationale

S&P Global Ratings raised its rating on Granite Shoals, Texas' combination tax and revenue certificates of obligation two notches to 'A' from 'BBB+'. The outlook is stable.

This rating action reflects our opinion of the city's recently improved financial performance and position and our expectation that the city will likely maintain its finances over the next several fiscal years.

The certificates are payable from a limited ad valorem tax levied on all taxable property within the city and surplus net revenue, not to exceed $1,000, from the city's utility system. The city's current property tax rate is 52 cents per $100 of assessed value (AV), well below the maximum allowable rate of $1.50 per $100 of AV.

The rating reflects our opinion of the following factors for the city, specifically its:

- Weak economy, with projected per capita effective buying income at 61.9% of the national level and market value per capita of $95,640;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2015, which closed with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with a low nominal available fund balance ($232,000) that we expect will improve as a percent of expenditures in the near term from its fiscal 2015 level of 6.8% of expenditures;
- Very strong liquidity, with total government available cash at 42.9% of total governmental fund expenditures and 3.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 13.4% of expenditures and net direct debt that is 120.2% of total governmental fund revenue, as well as rapid amortization, with 68.3% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Weak economy

We consider Granite Shoals' economy weak. The city, with an estimated population of 5,046, is in Burnet County. The city has a projected per capita effective buying income of 61.9% of the national level and per capita market value of $95,640. Overall, the city's market value grew by 5.9% over the past year to $482.6 million in 2016. The county unemployment rate was 3.7% in 2015.

The roughly 5.7-square-mile city is about 60 miles northwest of Austin in Texas' Hill Country region. Granite Shoals is located along the shores of Lake LBJ, one of seven Texas Highland Lakes. Therefore, the region contains numerous waterways and several golf courses within a 20-mile radius. Wealth and income reflect the city's primarily residential limited economy.

Fiscal 2015 saw the issuance of several residential home permits, and the city expects to issue several more by the close of fiscal 2016. It has also seen some commercial development with the opening of a new chain restaurant in fiscal 2015. Officials expect economic growth to continue with AV projected to grow by 2% annually over the next several fiscal years.

Strong management

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

Key practices include management's use of conservative revenue and expenditure projections that take into account historical data and information from outside sources, where applicable. Management provides quarterly reports on budget-to-actual financial results to the city council. Granite Shoals has a 10-year capital improvement plan (CIP) that it updates annually during the budget process. The CIP identifies projects, costs, and funding sources.

The city employs an annually reviewed investment policy that mirrors the Texas Public Funds Investment Act. Management provides quarterly investment reports to the city council that detail investment holdings and returns. The city's basic debt management policy limits debt to no more than 10% of AV, and its formal policy maintains at least 25% of general fund expenditures in reserve. While the city is currently not at its fund balance target, management expects to reach its fund balance target within the next three fiscal years. Granite Shoals lacks a formal long-term financial forecast.

Strong budgetary performance

Granite Shoals' budgetary performance is strong in our opinion. The city had deficit operating results in the general fund of 2.1% of expenditures, but a surplus result across all governmental funds of 5.3% of expenditures in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could improve from 2015 results in the near term.

After a period of structural deterioration from fiscal years 2009-2012, during which fund balances declined to a low of negative 9.6%, the city posted operating surpluses in fiscal years 2013 and 2014 due to the implementation of several measures, including stronger financial management practices and a reallocation of the tax rate between maintenance and debt service. Preliminary fiscal 2015 results indicate the city achieved a surplus; however, net of proceeds from a debt issuance, it saw an operational deficit of $70,000. Despite the deficit, the city saw fund balance increase nominally and as a percent of general fund expenditures. Management attributes this partially to a restatement of the beginning fund balance in fiscal 2015.

Granite Shoals has adopted a surplus budget for fiscal 2016; according to management, the city is performing according to budget. Projections indicate management expects a $30,000 surplus at fiscal year-end 2016.

Management's preliminary outlook for fiscal years 2017 and 2018 indicate it plans to achieve general fund surpluses to continue to build fund balance back to its formal target. Therefore, we expect the city will likely continue to improve its budgetary position over the next several fiscal years.

Strong budgetary flexibility

Granite Shoals' budgetary flexibility is strong, in our view, with an available fund balance that we expect could improve in the near term from its fiscal 2015 level of 6.8% of operating expenditures. The city's reserves are low on a nominal basis at $232,000, which we view as vulnerably low and a negative credit factor.

Fiscal 2015 saw the restatement of the city's beginning total general fund balance to $291,960 from $174,573. After adjusting for $307,000 in debt proceeds deposited into the general fund, preliminary results show Granite Shoals ended fiscal 2015 with an available fund balance of 6.8% of expenditures, which we consider good, in-line with the city's performance expectations for fiscal 2015.

Fiscal 2016 projections indicate the city will post a $30,000 general fund surplus, which we believe will lead to, what we consider, a strong fund balance. The city intends to achieve surpluses in fiscal years 2017 and 2018 as it builds fund balance up to the formal target of 25% of expenditures. Officials have expressed plans to achieve that target by fiscal 2019. While available fund balance remains nominally low, continued and sustained improvement in fiscal year-end fund balance could result in a higher rating.

Very strong liquidity

In our opinion, Granite Shoals' liquidity is very strong, with total government available cash at 42.9% of total governmental fund expenditures and 3.2x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Since no material cash draws are expected, we believe the city's cash position will likely remain stable. Granite Shoals has $610,000 in privately placed, variable-rate certificates of obligation. These obligations represent about 5.6% of total direct debt. The minimum interest rate allowed on the certificates is 4.25% and the maximum rate is 6%; the interest rate resets in August 2020 and again in August 2025. Should the interest rate be reset to the maximum allowed rate, we believe the city has sufficient liquidity to meet the required debt payments.

Currently, all of Granite Shoals' investments comply with Texas statutes and the city's internal investment policy. At fiscal year-end 2015, investments included certificates of deposit and the TexPool Investment Pool, neither of which we consider aggressive.

Adequate debt and contingent liability profile

In our view, Granite Shoals' debt and contingent liability profile is adequate. Total governmental fund debt service is 13.4% of total governmental fund expenditures, and net direct debt is 120.2% of total governmental fund revenue. Approximately 68.3% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city has $610,000 outstanding in privately placed debt with a variable rate, which is reset every five years. The most recent reset occurred in August 2015 at an interest rate of 4.25%; the next resets are scheduled for August 2020 and August 2025. The minimum interest rate allowed is 4.25% and the maximum rate is 6%. Granite Shoals has determined that if the rate were reset to the maximum of 6% in 2020, total debt payment requirements for fiscal 2021 would increase by only about $7,500. Debt payment requirements for fiscal 2022 and beyond would fluctuate by no more than $3,500 per fiscal year until the obligations matured in fiscal 2027. Based on this, we do not think the obligations pose an interest rate risk for the city.

Management expects a $2 million bond election in November 2016 for road construction and improvement. However, we do not believe the issuance of these bonds--if management were to issue them within the next two years--would materially affect the city's debt profile.

Granite Shoals' combined required pension and actual other postemployment benefit (OPEB) contribution totaled 1.5% of total governmental fund expenditures in fiscal 2015. The city made its full annual required pension contribution in fiscal 2015.

The city participates in the Texas Municipal Retirement System (TMRS), administered by Texas. Granite Shoals' required pension contribution is its actuarially determined contribution, calculated at the state level. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the city's net pension liability was measured, as of Dec. 31, 2014, at $33,010. The TMRS plan maintained a funded level of 96.7%, using the plan's fiduciary net position as a percent of the total pension liability. (For additional details on GASB Nos. 67 and 68, please see the report, titled "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect.)

The city also provides OPEB through its participation in the TMRS supplemental death benefits fund. We do not expect pension costs to rise substantially over the next few years.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that it will likely not change the rating over the two-year outlook period. We expect Granite Shoals will likely continue to make strides in maintaining its strong budgetary flexibility and performance, supported by strong management.

Upside scenario

We could raise the rating if the city were to build and sustain available fund balance at levels above $500,000 or if the city were to develop a trend of maintaining positive available fund balance, supported by ongoing strong budgetary performance.

Downside scenario

We could lower the rating if weak budgetary performance were to result in a negative available fund balance, which we believe is possible due to the city's currently low nominal amount.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.