

RatingsDirect®

Summary:

Leon Valley, Texas; General Obligation

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Credit Profile

US\$2.0 mil comb tax and ltd pledge rev certs of oblig ser 2016 dtd 05/01/2016 due 08/01/2046

Long Term Rating AA/Stable New

Leon Vy GO bnds

Long Term Rating AA/Stable Affirmed

Leon Vy GO (ASSURED GTY)

Unenhanced Rating AA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Leon Valley, Texas' series 2016 combination tax and limited-tax surplus revenue certificates of obligation and affirmed its 'AA' rating, with a stable outlook, on the city's existing general obligation (GO) debt.

A limited-ad valorem-tax levy and net surplus water and sewer revenue, not to exceed \$1,000, secure the series 2016 certificates. The city's current ad valorem tax rate is 56 cents per \$100 of assessed value (AV), well below the maximum allowable tax rate of \$2.50 per \$100 of AV. The certificates lack the necessary bond provisions to determine a rating under our utility criteria. We rate the certificates under our GO criteria because we do not differentiate between the city's limited- and unlimited-tax pledges due to its tax rate flexibility, very strong liquidity, and high investment-grade debt.

We understand officials intend to use series 2016 certificate proceeds to fund various city water and wastewater improvement projects.

The rating reflects our opinion of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 51% of operating expenditures;
- Very strong liquidity, with total government available cash at 93% of total governmental fund expenditures and 13.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.1% of expenditures and net direct debt that is 107.4% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Leon Valley's economy adequate. The city, with an estimated population of 10,866, is in Bexar County in the San Antonio-New Braunfels MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 91.9% of the national level and per capita market value of \$75,515. Overall, the city's market value grew by 10.9% over the past year to \$820.5 million in 2016. The county unemployment rate was 4.6% in 2014.

The 3.5-square-mile city is 10 miles from downtown San Antonio. State Highway 16, known as Bandera Road, and Loop 410 are the primary arteries to San Antonio. Leon Valley's economy is a combination of retail, commercial, and residential properties. Property tax base growth during the economic slowdown had been fairly flat from fiscal years 2010-2013; the tax base, however, has increased by a cumulative 20.3% over the past three fiscal years following economic improvement and improving values for existing properties. With Leon Valley nearing buildout, we believe any further tax base growth would most likely occur through property revaluations.

Strong management

We view the city's management as strong, with good financial management 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.

Highlights include management's:

- Revenue and expenditure assumptions based, in part, on historical trends and information from outside sources;
- Monthly budget reports to the city council, including year-to-date comparisons to the budget;
- Long-term financial forecasting for the general fund, which goes out four years beyond the budget year, projecting leading revenue and personnel costs;
- Rolling five-year capital acquisition and improvement plan by department with the plan included in the budget document, coupled with funding and costs identified for all years--The city finances larger capital needs with debt;
- Formal investment policy that follows state guidelines with quarterly reports on performance and holdings to the council; and
- Formal general fund balance policy, adopted in fiscal 2011, to conform with Governmental Accounting Standards Board Statement No. 54 terminology--While the policy states it will strive to maintain a committed fund balance of, at least, three months' operating expenditures for natural or manmade disaster emergencies, the city has not reached the targeted goal; management, however, expects to add to fund balance over time to be in-line with the policy.

While the city currently lacks a formal debt management policy, it adheres to state guidelines.

Strong budgetary performance

Leon Valley's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 0.7% of expenditures, and surplus results across all governmental funds of 2.8% of expenditures in fiscal 2015.

Consecutive surplus operations in the general fund and across all total governmental funds in each of the past three audited fiscal years support strong budgetary performance. Property and sales taxes generated the bulk of fiscal 2015 general fund revenue at 45% and 29%, respectively. In our view, the sales tax base has been a reliable revenue source

because it continues to grow along with the population and general economic improvement. Based on the balanced budget and projected break-even operations for fiscal 2016, we expect financial performance to remain strong in subsequent fiscal years with positive general fund and total governmental fund performances, after adjusting for one-time capital expenses and the use of bond proceeds.

Very strong budgetary flexibility

Leon Valley's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 51% of operating expenditures, or \$3.7 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. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 52% of expenditures in 2014 and 49% in 2013.

The city has set aside \$900,000 in committed general fund balance for natural or manmade disasters, which it can access with council approval. For fiscal 2016, management adopted a balanced operational budget; management, however, indicates it will likely transfer about \$599,000 into the general fund from other funds set aside for economic development and infrastructure. Based on projected and budgeted expectations, we do not expect budgetary flexibility to decrease below, what we consider, very strong levels.

Very strong liquidity

In our opinion, Leon Valley's liquidity is very strong, with total government available cash at 93% of total governmental fund expenditures and 13.2x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We believe Leon Valley has strong access to external liquidity due to its relatively frequent history of GO-supported debt issuance over the past 10 years. Currently, all investments comply with state statutes and we do not consider them aggressive. Additionally, the city is not obligated to any direct-purchase debt. Based on the city's long-term historical maintenance of very strong liquidity, we do not expect this score to change over the next few years.

Adequate debt and contingent liability profile

In our view, Leon Valley's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.1% of total governmental fund expenditures, and net direct debt is 107.4% of total governmental fund revenue.

We understand the city does not currently plan to issue additional debt over the next two years.

Leon Valley's combined required pension and actual other postemployment benefit contribution totaled 7.8% of total governmental fund expenditures in fiscal 2015. The city made its full annual required pension contribution in fiscal 2015.

The city provides pension benefits for all full-time employees through the statewide Texas Municipal Retirement System (TMRS), an agent multiemployer, public-employee retirement system. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement No. 67, the net pension liability, as of December 2014, was \$2.2 million. The city also participates in the cost-sharing, multiemployer, TMRS-operated, defined-benefit, group-term life insurance plan known as the supplemental death benefits fund. The city has met its annual required contribution for the past three fiscal years, and it plans to continue to meet those requirements.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Leon Valley's very strong budget flexibility and liquidity, supported by a strong management team. We do not expect to change the rating over the next two years.

Upside scenario

We could raise the rating if the city were to see economic expansion, resulting in improved wealth and income.

Downside scenario

We could lower the rating if budgetary performance and debt were to deteriorate to levels we consider weak.

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: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- 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

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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