

RatingsDirect®

Summary:

Chandler, Texas; General Obligation

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US\$1.5 mil Combination Tax and Surplus Rev Certs of oblig ser 2017 dtd 03/15/2017 due 10/15/2036

Long Term Rating

A+/Stable

New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Chandler, Texas' \$1.5 million combination tax and surplus revenue certificates of obligation, series 2017. The outlook is stable.

The certificates are payable from revenue from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city and limited surplus revenue of the city's combined utility system. State statutes limit the maximum ad valorem tax rate for general law cities to \$1.50 per \$100 of taxable assessed valuation for all city purposes. Administratively, the Texas attorney general will permit the allocation of \$1.00 of the \$1.50 maximum tax rate for ad valorem tax debt service. In fiscal 2017, the city is levying 57.74 cents, all of which is dedicated to general operations. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit. Proceeds from the bonds will fund street, road, and waterworks and sewer system improvements.

The rating reflects our opinion of the city's:

- Weak economy, with market value per capita of \$62,047 and projected per capita effective buying income (EBI) at 87.8% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with balanced operating results in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 10.5% of operating expenditures but a nominally low at \$288,000;
- Very strong liquidity, with total government available cash at 38.8% of total governmental fund expenditures and 12.6x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.1% of expenditures and net direct debt that is 159.2% of total governmental fund revenue, as well as rapid amortization, with 77.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Weak economy

We consider Chandler's economy weak. The city, with an estimated population of 2,764, is located in Henderson County. The city has a projected per capita EBI of 87.8% of the national level and per capita market value of \$62,047. Overall, the city's market value grew by 6.6% to \$171.5 million in 2017. The county unemployment rate was 4.9% in

2015.

The city, located on State Highway 31, is primarily residential and lies approximately 10 miles west of the City of Tyler, which serves as the regional economic center for northeast Texas. Chandler's residents have access to Tyler's diverse economy, anchored by education, health care, and the retail and service industries. In addition, the city benefits from its proximity to Lake Palestine, a popular tourist and fishing destination. Chandler's population and tax base have continued to grow in recent years, in tandem with Tyler's expansion. Officials report new single- and multifamily housing as well as ongoing commercial activity. Given ongoing economic development as well as ample available vacant land within the city's corporate limits, we expect that the city's tax base will see sustained growth, but we anticipate no material changes to the city's key economic credit fundamentals over the next two years.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

When crafting budget assumptions, officials rely on as much as two years of historical data, tracking the tax base as well as revenue and expenditure trends. However, we note that assumptions may not have been well defined in the past, resulting in negative budget-to-actual variances. The budget can be amended as needed, and the council receives monthly budget-to-actual reports. The city has a formal investment policy, and staff and council members monitor policy investment results and compliance monthly. Chandler has recently adopted a multiyear capital improvement plan that identifies all project costs. The city does not have a long-term financial plan or a debt management policy. An informal reserve policy requires the maintenance of 60 to 90 days of expenditures in general fund reserves. The city is currently not meeting this target.

Adequate budgetary performance

Chandler's budgetary performance is adequate, in our opinion. The city had balanced operating results in the general fund of negative 0.3% of expenditures, but a slight deficit result across all governmental funds of 1.1% in fiscal 2016.

Property taxes are the largest revenue source within the general fund in fiscal 2016 (31% of total revenues), followed by sales taxes (19%) and trash and tax collection (14%).

The city has ended two of the past three fiscal years with small operating deficits in the general fund. Contributing factors were overbudgeting for revenue, underbudgeting for expenditures, and ongoing capital projects. In fiscal years 2015 and 2016, sales tax revenue came in below budget as a result of the downturn in the oil and gas industry, which had a significant effect on the nearby City of Tyler. Chandler officials expect that sales tax revenue trends will improve as oil and gas prices stabilize. Given this expectation as well as the continued tax base growth, the city budgeted for balanced operations in fiscal 2017 and expects to adopt a balanced budget for fiscal 2018. We expect the city will maintain at least adequate budgetary performance over the next two years. However, our view of the city's performance could worsen if the city is unable to alleviate operating drawdowns.

Strong budgetary flexibility

Chandler's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 10.5% of operating expenditures. The city's reserves are low on a nominal basis at \$288,000, which we view as vulnerable and a negative credit factor.

Given our expectation for adequate budgetary performance in fiscal years 2017 and 2018, we expect the city's flexibility to remain at least strong in the next two years. However, if reserves continue to decline, our view of the city's flexibility could deteriorate.

Very strong liquidity

In our opinion, Chandler's liquidity is very strong, with total government available cash at 38.8% of total governmental fund expenditures and 12.6x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary, as demonstrated through its access to the market and issuance of general obligation bonds over the past 20 years. The city has historically had what we consider very strong cash balances and, given our expectations for fiscal years 2016 and 2017, we do not believe its cash position will worsen. All of the city's investments comply with Texas statutes and the city's investment policy. At fiscal year-end 2016, the city's investments consisted of bank deposits. A portion of the city's debt has been privately placed. Legal terms are standard and contain no unusual provisions, such as acceleration, that could pressure the city's liquidity.

Adequate debt and contingent liability profile

In our view, Chandler's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.1% of total governmental fund expenditures, and net direct debt is 159.2% of total governmental fund revenue. Approximately 77.3% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city has no authorized but unissued bonds outstanding. The city is considering issuing as much as \$2 million in certificates of obligation for road projects. However, the timing of the possible issuance is unknown.

Chandler's combined required pension and actual other postemployment benefits contributions totaled 1.7% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

The city contributes to a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Under state law governing the TMRS, an actuary determines the contribution rate annually. Using updated reporting standards in accordance with Governmental Accounting Standard Board Statement Nos. 67 and 68, the city recorded a net pension liability of \$293,741 as of Dec. 31, 2015, the most recent actuarial valuation date. The plan reported a funded ratio of 63.9%.

The city also participates in the cost-sharing, multi-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The city contributes to the plan at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before Nov. 1 of each calendar year.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

We do not expect to change the rating during the two-year outlook period. The stable outlook reflects our opinion that Chandler will likely maintain its strong budgetary flexibility and very strong liquidity.

Upside scenario

We could raise the rating if the city's budgetary performance improves, accompanied by an improvement in flexibility from nominally low levels.

Downside scenario

We could lower the rating with a trend of structurally imbalanced operations that result in flexibility declining from strong levels. We could also lower the rating if the city's economic indicators and debt profile deteriorate.

Related Research

2016 Update Of Institutional Framework For U.S. Local Governments

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