S&P Global
Ratings

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Summary:

Cibolo, Texas; General Obligation

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Credit Profile		
US$7.5 mil comb tax and rev certs of oblig ser 2020 dtd 08/15/2020 due 02/01/2030		
Long Term Rating	AA/Stable	New
Cibolo GO		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the City of Cibolo, Texas' anticipated $7.5 million series 2020 combination tax and revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on the city's general obligation (GO) debt outstanding. The outlook is stable.

The GO bonds and certificates of obligation are payable from a direct and continuing ad valorem tax, levied within the limits prescribed by law, on all taxable property in the city. The maximum allowable 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 current levy is well below the maximum, at 49.35 cents, 19.39 cents of which is dedicated 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 do not differentiate between the city's limited-tax GO debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources.

The certificates are additionally supported by a limited pledge (not to exceed $1,000) of the net revenues from the operation of the city's combined utility system. Given the limitation of the net utility system revenue pledge, the certificates are rated based on the city's ad valorem tax pledge.

Proceeds from the certificates will be used for various street projects. After this issuance, the city will have about $60.3 million of ad valorem property tax-backed debt outstanding.

Credit overview

Cibolo has experienced economic expansion with the addition of a major employer in the area and has been bolstered by its proximity to San Antonio. Cibolo's debt burden, which we consider weak, remains the primary credit constraint. Although Cibolo has produced general fund deficits in the past, overall performance has been adequate and officials expect fiscal 2020 to result in a surplus. Furthermore, the city enters the national recession triggered by the outbreak of COVID-19 with very strong budgetary flexibility and a reserve policy of maintaining between 25% and 35% in the unassigned general fund balance. Given the uncertainty in the current economic environment stemming from the recent spread of coronavirus (COVID-19), in our view, the city could face unexpected economic or financial pressures over the medium-to-long term. Even accounting for these potential risks, we believe it has sufficient financial flexibility and robust policies in place to address uncertainties and budget pressures. Although we expect the ratings to be stable and our outlook is generally for two years, we recognize the potential for downside risk because of COVID-19 and the related recession during the next six to 12 months. (For further information, see "U.S. Real-Time Economic Data Signals A Faltering Recovery," published Aug. 3, 2020.)

The ratings reflect our view of the following factors:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 44% of operating expenditures;
- Very strong liquidity, with total government available cash at 72.3% of total governmental fund expenditures and 3.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 23.5% of expenditures and net direct debt that is 255.5% of total governmental fund revenue, but rapid amortization, with 73.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We analyzed the city's ESG risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard. Our ratings incorporate our view regarding the health and safety risks posed by the COVID-19 pandemic, which, if sustained, could weaken the city's economy, liquidity, and budget performance. Absent the implications of COVID-19, we consider the city's social risks to be in line with those of the sector. The city is taking steps to mitigate its exposure to cybersecurity risks. In addition, the city experiences very infrequent flooding, according to officials, which has caused no major damage in the past. Mitigation efforts include maintaining reserves to address unexpected costs and the city mandates drainage plans for any new development.

Stable Outlook

Downside scenario

We could lower the ratings if the city's financial performance deteriorates, leading to sustained and significant drawdowns in reserves.

Upside scenario

Although unlikely during the current economic environment, we could raise the ratings if economic expansion results in improved wealth and income indicators, compared with those of peers, or if the city's overall debt profile were to improve while it achieves strong financial performance.

Credit Opinion

Strong economy

We consider Cibolo's economy strong. The city, with an estimated population of 20,369, is located in Guadalupe County in the San Antonio-New Braunfels, Texas, MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 108.9% of the national level and per capita market value of $115,764. The city's market value grew by 3.2% over the past year to $2.4 billion in 2021. The county unemployment rate was 2.9% in 2019.

Cibolo is about 13 miles northeast of downtown San Antonio along Interstate 35. The city primarily functions as a residential suburb, offering residents easy access to leading employment centers throughout the MSA. Accordingly, the local economy has experienced modest growth in the retail, industrial, and housing sectors in recent years. We consider the taxable base very diverse, with the top 10 taxpayers representing only 4.9% of taxable value in fiscal 2020. Despite the loss of its top industrial taxpayer in 2017 following its bankruptcy, the city's taxable AV has demonstrated good growth with a total increase of 20% since then.

Both residential and commercial development are expected to drive near-term AV growth. Officials report that it continues to experience about 350 new residential building permits annually. Commercial development includes Aisin AW, a Japanese manufacturer, which will make an initial investment of $400 million to construct a new factory, which is expected to bring 900 jobs to the area. Officials report that the company wants to be operational by the fall of 2021. Furthermore, the 110-acre Cibolo Crossing retail development at the city's northern boundary adjacent to the interstate recently opened with an 87,000-square-foot movie, bowling, and live music complex as the development's anchor. The movie theater is open with limited activity, and one restaurant (Dunkin Donuts) is open. More than half of the complex is still under construction, but with some delays due to the pandemic.

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 regularly monitor all of them.

Key practices include:

- Revenue and expenditure assumptions based on two to five years of historical trends with the consultation of outside sources;
- Monthly budget-to-actuals provided to council with the ability to amend them as needed;
- Annually updated projections for operations that span five years; however, this is not a formal process;
- Annually updated five-year capital improvement plan; however, it is not rolling;
- Formal investment policy that conforms with state statutes, and is reviewed by council annually, with statements reviewed quarterly;
- A formal reserve policy that targets to maintain between 25% and 35% of operating expenditures in unassigned general fund reserves, with any excess funds allowed to be spent on nonrecurring items; and

- Lack of a formal debt management policy.

Adequate budgetary performance

Cibolo's budgetary performance is adequate, in our opinion. The city had operating surpluses of 3.1% of expenditures in the general fund and of 6.3% across all governmental funds in fiscal 2019. In assessing the city's budgetary performance, we adjusted for annually recurring transfers into and out of the general fund and total governmental funds, as well as a downward adjustment to expenditures for use of bond proceeds for capital projects.

Taxes, including sales (18%) and property (47%) accounted for general fund's largest revenues sources, based on the fiscal 2020 budget, with permits and fees (17%) representing the next-largest revenue sources--all of which have remained stable in recent years. Officials report that for fiscal year ending Sept. 31, 2020, the second quarter recorded the highest value in sales tax revenue. Sales tax revenues have historically experienced double-digit annual growth, according to officials. For fiscal 2020, the city is expecting to outperform the budget for both revenues and expenditures, resulting in an expectation by officials for a positive year-end result.

For fiscal 2021, management presented a balanced budget to the city council. The budget assumes a 5.5% increase in property tax revenue due to new property added to the tax roll, and a 10.5% increase in sales tax revenue, but assumed decrease in building permits and less interest earnings for a net year-over-year increase of 4.6% general fund revenue. Expenditures are budgeted to be 1.7% higher, with no plans to add staff or fund a cost-of-living adjustment, and no new programs, except for a third fire station that was approved by voters through a previous bond election. The budget also includes a spend-down of reserves in excess of its policy target to fund capital projects of about $200,000.

Very strong budgetary flexibility

Cibolo's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 44% of operating expenditures, or $5.6 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.

The city has a formal reserve policy of maintaining 25%-35% of budgeted expenditures in unassigned fund balance. As a result, anything over the 35% threshold is to be used for what the city considers to be one-time capital projects, leading to modest annual drawdowns on its reserves, and, in turn, slight deficits. For fiscal 2021, management anticipates reserves of 35.4% after a roughly $200,000 drawdown for capital. We understand the city is considering revising its policy to 30% from 35% on the upper end of the target, levels we still consider very strong.

Very strong liquidity

In our opinion, Cibolo's liquidity is very strong, with total government available cash at 72.3% of total governmental fund expenditures and 3.1x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

Cibolo's strong access to external liquidity is demonstrated by its access to the market over the past two decades, which includes numerous GO-backed bond issuances. The city has historically maintained what we consider very strong cash balances, and at the end of fiscal 2019 investments were held primarily in certificates of deposit and local government investment pools--none of which we consider aggressive.

The city has about $9 million in privately placed debt outstanding that makes up about 15% of Cibolo's total direct debt; however, the private placements do not include acceleration or cross-default provisions, and--similar to the city's existing debt--are fixed-rate debt and contain no variable-rate components or permissive covenants. Therefore, we do not believe Cibolo has exposure to liquidity pressure from contingent liabilities, and do not expect the city's liquidity position to deteriorate from its very strong position in the near term.

In addition, the city is subject to a lawsuit filed by a developer on Jan. 9, 2020, with a claim of $15 million against the city. The city disputes the claim, and the litigation is in the discovery phase. As a result, we do not view it as an immediate liquidity risk over the next 12 months. The lawsuit alleges the city breached its contract with Texas Turnpike Corp. when it ceased to move forward with a $152 million road project that would have created a thoroughfare through the city.

Weak debt and contingent liability profile

In our view, Cibolo's debt and contingent liability profile is weak. Total governmental fund debt service is 23.5% of total governmental fund expenditures, and net direct debt is 255.5% of total governmental fund revenue. Approximately 73.1% 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 firm plans to issue additional debt over the next year and most projects have participation agreements with developers, with impact fees expected to fund most projects. However, the city is currently developing plans for a bond election in 2021 or 2022. In addition, we note that the city plans to continue to cash-fund capital projects as it aims to use reserves over 35% of operating expenditures for one-time capital expenses.

Pensions and other postemployment benefits (OPEBs)

- Pension and OPEB costs are not a source of credit pressure, given that they represent just 5.1% of the city's total governmental funds expenditures in fiscal 2019.
- Recent volatility in the markets and the amortization and payroll growth assumptions will likely lead to increased costs in the future. However, we believe the city has sufficient budgetary flexibility and liquidity to address these costs.

The city participates in the Texas Municipal Retirement System (TMRS):

- The pension plan was 82.5% funded, with a proportionate share of the plan's net pension liability of $2.5 million, as of Dec. 31, 2018.
- The OPEB liability was unfunded, with a net pension liability of $1.9 million, as of Sept. 30, 2019.

For OPEBs, the city offers retirement health care benefit and a supplemental death benefit. In addition, the city provides pension benefits for all of its full-time employees through the TMRS, a multiple employer, defined-benefit pension plan. Actuarially determined contributions fell slightly short of our minimum funding progress metric. Actuarial assumptions include a discount rate of 6.75% and a 26-year closed amortization period. The plan's assumed discount rate is not aggressive, in our opinion, although we consider the closed amortization period of 26 years extended, leaving greater potential for costs to grow based on actual performance. Lastly, contributions are likely to increase given the level percent of payroll funding method, as opposed to level-dollar contributions, which would result in consistent payments. For more information, see "Pension Spotlight: Texas" published Feb. 25, 2020.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 31, 2020)		
Cibolo certs of oblig		
Long Term Rating	AA/Stable	Affirmed
Cibolo GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Cibolo GO (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.