S&P Global Ratings

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Summary:

Beeville, Texas; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$7.195 mil comb tax & rev certs of oblig ser 2021 dtd 06/01/2021 due 02/15/2041		
Long Term Rating	A/Stable	New
Beeville GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings raised its rating to 'A' from 'A-' on the City of Beeville, Texas' certificates of obligation outstanding. At the same time, S&P Global Ratings assigned its 'A' rating to the city's $7.195 million series 2021 combination tax and revenue certificates of obligation. The outlook is stable.

The upgrade reflects our view that the city's financial management team has stabilized, with financial management policies and practices we consider good. We previously viewed the city's management as weak due to significant turnover in key executive and financial positions that, in our view, had a negative effect on the city's financial performance.

The certificates are direct obligations of the city, payable from an annual ad valorem tax levied against all taxable property in the city, within the limits prescribed by law, and additionally secured by a pledge of the surplus revenues of the city's waterworks and sewer system. Given the limitation of the net utility system revenue pledge, the certificates are rated based on the city's ad valorem tax pledge. The maximum allowable ad valorem tax 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 total tax rate is well below the maximum, at 66.3 cents, of which 22.2 cents is for debt service. The ad valorem taxes are not levied on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service. Therefore, we view the limited-tax pledge to be on par with the issuer credit rating, which reflects the city's general creditworthiness.

Proceeds from the certificates will fund various waterworks and sewer system capital projects. After this issuance, the city will have approximately $15.8 million in net direct debt outstanding, accounting for self-supporting debt.

Credit overview

Previously, we viewed the city's management as weak and a negative credit factor due to significant turnover in the city's key executive and financial positions between 2012 and 2017. However, we believe the city's financial management team has stabilized and therefore, we no longer consider high turnover as having a negative effect on the city's financial performance. After consecutive years of balanced-to-positive operating performance, the city had a budgeted drawdown for capital expenditures in fiscal 2020, and officials expect another fund balance drawdown in fiscal 2021, largely due to a decline in property tax collections. Despite the projected fund balance drawdown, we expect the city will continue to maintain a strong financial position bolstered by the receipt of about $2.7 million in federal stimulus funding, and offsetting the city's very weak economic metrics and debt levels, which we do not expect to materially improve. We therefore do not expect to change the rating during the two-year outlook period. However, if operating deficits become persistent and materially weaken the city's fund balance, there could be downward rating pressure.

The rating also reflects our view of the city's:

- Very weak economy, with projected per capita effective buying income at 57.1% of the national level and market value per capita of $37,718;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 14.0% of operating expenditures;
- Very strong liquidity, with total government available cash at 68.2% of total governmental fund expenditures and 9.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 7.5% of expenditures and net direct debt that is 148.9% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance factors

We view the city's environmental and governance factors as in-line with our view of the sector. However, we view the city's social risks as slightly elevated given the city's low income and wealth metrics and above-average unemployment rate, which could potentially limit the city's revenue raising flexibility.

Stable Outlook

Downside scenario

If operating deficits become persistent leading to a material decline in the city's available fund balance, we could consider negative rating action.

Upside scenario

Although unlikely during the next two years, if the city's wealth and income indicators were to significantly improve, we could consider positive rating action.

Credit Opinion

Very weak economy

We consider Beeville's economy very weak. The city, with an estimated population of 13,021, is located in Bee County, approximately 90 miles southeast of San Antonio and 50 miles northwest of Corpus Christi at the intersection of U.S. Highways 59 and 181. The local economy is centered on agriculture, criminal justice, oil and gas production. The city has a projected per capita effective buying income of 57.1% of the national level and per capita market value of $37,718. The county unemployment rate was 9.8% in 2020 and has declined only modestly to 9.4% as of April 2021.

Overall, the city's market value fell by 5.8% over the past year to $491.1 million in 2021, primarily because of increased protested values ($52.8 million compared to $2.3 million the prior year). Additionally, city officials indicate property tax collections are down about 7% compared to where they usually are at this point in the fiscal year. While the city does not have a history of below-average property tax collection rates, a continuation or further deterioration in this trend could put pressure on the city's budget. More positively, NAFFCO, a producer of firefighting and fire safety equipment, recently signed an agreement to lease 3 facilities totaling approximately 250,000 square feet at the former Chase Naval Airbase, which is owned and managed by the Bee Development Authority with oversight from Bee County, the City of Beeville, and Coastal Bend College. Although the city's property tax base will not directly benefit from this agreement, as the facilities are outside of the city, officials indicate it could spur residential development within the city, as the company is expected to add about 300-400 jobs once it's at full operating capacity (expected in the next two to three 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. Previously, we viewed the city's management as weak and a negative credit factor due to significant turnover in the city's key executive and financial positions between 2012 and 2017. However, we believe the city's financial management team has stabilized and therefore, we no longer consider high turnover as having a negative effect on the city's financial performance.

Highlights of the city's policies and practices include:

- The use of several years of historical data in relation to current monthly trends in formulating revenue and expenditure budgetary assumptions.
- Quarterly budget-to-actual reports provided to the council.
- A financial forecast for all funds going out three years beyond the current budgeted year incorporated into the annual budget document, however the forecast lacks a robust discussion of future issues and possible solutions.
- A five-year capital improvement plan incorporated into the budget document, although not all sources of funding are identified.
- A formal investment management policy with quarterly investment reports provided to the council.
- A formal reserve and liquidity policy to maintain unassigned general fund balance of at least 5% of general fund expenditures to mitigate financial risk resulting from unforeseen expenditures or revenue fluctuations. If the fund

balance falls below 5%, the city must develop a restoration plan to achieve the minimum fund balance per the formal reserve policy.

The city does not currently have a formal debt management policy.

Adequate budgetary performance

Beeville's budgetary performance is adequate in our opinion. The city had slight surplus operating results in the general fund of 0.9% of expenditures, but a deficit result across all governmental funds 5.1% in fiscal 2020.These figures have been adjusted for recurring transfers and capital outlay funded with bond proceeds.

After consecutive operating surpluses, the city had deficit results in fiscal 2020 primarily due to a budgeted $400,000 transfer out of the general fund for vehicle purchases. For fiscal 2021, the city budgeted for a general fund drawdown of $79,776 (about 0.8% of expenditures). However, the city is currently expecting a drawdown of just under $300,000 largely because of property tax collections being down 7% from the prior year-to-date (about a $160,000 difference). While we believe the city's financial position may be stabilized by the expected receipt of about $2.7 million in federal funding from the American Rescue Plan, if operating deficits become persistent and materially weaken the city's fund balance, there could be downward rating pressure.

Strong budgetary flexibility

Beeville's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 14.0% of operating expenditures, or $1.4 million. Although the city anticipates a general fund drawdown of about $300,000 in fiscal 2021, we do not expect the city's available fund balance to fall below 8%, the lower threshold of what we consider strong.

Very strong liquidity

In our opinion, Beeville's liquidity is very strong, with total government available cash at 68.2% of total governmental fund expenditures and 9.1x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary, as demonstrated by its frequent issuance of GO bonds. Although the city's fund balance is expected to decline in fiscal 2021, we expect the city's liquidity will remain very strong. All of the city's investments comply with both Texas statutes and its own formal policy, and were held entirely in local government investment pools as of Sept. 30, 2020, which we do not consider to be aggressive. The city has several privately placed bonds, accounting for 37% of the city's outstanding debt. However, the legal documents associated with this debt do not include acceleration of principal as a remedy for default or any cross-default provisions, and the debt is all fixed-rate with no variable-rate components or permissive covenants. Therefore, we do not consider this debt to be a contingent liquidity risk.

Weak debt and contingent liability profile

In our view, Beeville's debt and contingent liability profile is weak. Total governmental fund debt service is 7.5% of total governmental fund expenditures, and net direct debt is 148.9% of total governmental fund revenue.

After this issuance, the city will have approximately $15.8 million in net direct debt outstanding, accounting for self-supporting debt. The city does not have plans to issue additional debt over the next two-to-three years. We do not expect our characterization of the city's debt burden to change over the outlook period.

Pension

We do not consider pension as a source of long-term credit pressure for the city, as the pension fund has a net asset and the city does not offer OPEB.

The city participates in the following plans:

- Texas Municipal Retirement System (TMRS), funded at 124.9%; with a net pension asset of $2.8 million.

TMRS is an agent plan with assets jointly managed. The plan uses certain assumptions that could increase contribution volatility, including a 6.75% discount rate, though there are offsetting factors. 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

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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