S&P Global Ratings

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Summary:

Weatherford, Texas; General Obligation

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Credit Profile		
US$4.62 mil tax and util sys (ltd pledge) rev certs of oblig ser 2018 due 03/01/2038		
Long Term Rating	AA/Stable	New
Weatherford GO		
Long Term Rating	AA/Stable	Upgraded
Weatherford GO (XLCA)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA' from 'AA-' on Weatherford, Texas' previously issued general obligation (GO) bonds, tax notes, and certificates of obligation (COs). At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the city's series 2018 tax and utility system (limited pledge) revenue certificates of obligation. The outlook is stable.

The rating action reflects our view of Weatherford's improved wealth and income levels resulting from continued economic growth, and is further supported by very strong budgetary flexibility and liquidity as well as strong management.

The series 2018 certificates, as well as existing COs, tax notes, and GO bonds, are payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city. The certificates are additionally secured by surplus net revenue of the city's municipal utility system, not to exceed $1,000. Given the limited nature of the revenue pledge, we rate the COs based on the city's GO limited-tax pledge alone.

State statutes limit the maximum ad valorem tax rate to $2.50 per $100 of taxable assessed valuation (AV) for all city purposes. Administratively, the attorney general of Texas will permit the allocation of $1.50 of the $2.50 maximum tax rate for ad valorem tax debt service. In fiscal 2018, the city levied 48.99 cents per $100 of AV: 33.43 cents for operations and 15.55 cents for debt service.

Based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018, on RatingsDirect), we rate the city's GO bonds, tax notes, and certificates at the same level as the issuer credit rating (ICR) because of our view of the fungibility of the city's resources and its ability to manage those resources, supporting our view of its overall ability and willingness to pay.

Proceeds from the sale of the certificates will fund various drainage improvements.

The rating reflects our assessment of the city's:

- 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 an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 43% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.6x total governmental fund expenditures and 8.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 18.4% of expenditures and net direct debt that is 185.6% of total governmental fund revenue, but rapid amortization, with 81.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Weatherford's economy strong. The city, with an estimated population of 27,188, is the Parker County seat and is about 30 miles west of Fort Worth on Interstate 20. It is in the Dallas-Fort Worth-Arlington MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 109.0% of the national level and per capita market value of $90,114. Overall, market value grew by 15.1% over the past year to $2.5 billion in 2018. The county unemployment rate was 3.5% in 2017.

Given ongoing economic development and the city's role as a regional retail center, we expect Weatherford's market value to continue to increase, but don't anticipate material changes in its wealth and income levels over the next two years.

Although many residents commute to Fort Worth for work, Weatherford has experienced substantial residential, commercial, and industrial development since the early 2000s, which has transformed its economy, originally centered on agriculture and manufacturing. In fiscal years 2014 to 2018, Weatherford's market value increased by a cumulative 28% and its population grew 16%. Single-family residential properties accounted for about 51% of market value in fiscal 2018, followed by commercial real estate at 25%.

Officials report steady growth in the single-family residential sector as well as several new apartment complexes. The city also continues to develop as a regional retail center, contributing to growing sales tax revenue. Recent additions include restaurants, small retail establishments, and two large retailers that began operations in fiscal 2017 in the newly created tax-increment reinvestment zone (TIRZ). A new car dealership is also under construction in the TIRZ and expects to open its doors in January 2019. The city projects that market value will grow a combined 6%-7% over the next three years. However, given the ongoing development and recent growth, we believe these to be conservative estimates.

The city's primary taxpayers or employers are reportedly stable. The 10 largest property taxpayers accounted for just

7.1% of assessed value (AV) in fiscal 2018. The largest, Parker County Hospital, has an AV of $35.5 million, representing 1.45% of total AV. The other top taxpayers are a mix of apartment complexes, retail, manufacturing, and real estate holdings. The city's largest employers include Weatherford Independent School District (945), Weatherford Regional Medical Center (585), and Parker County (485), followed by the city (371).

Strong management

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

Strengths of the city's financial management policies and practices include the use of historical data and outside sources of information in developing budget assumptions, as well as quarterly budget-to-actual updates to the city council.

The city also maintains a five-year financial forecast, updated annually in conjunction with the budget process. The plan includes an analysis of economic and financial trends, and identifies potential future pressures and ways to mitigate them.

Weatherford's financial management policy requires it to maintain 90 days of general fund operating budget in committed fund balance for emergency situations in which revenue has an unanticipated shortfall of more than 10%, or if there are unexpected expenditures of more than 5% of the budget. If the stabilization contingency falls below 90 days, management must take action to restore it within one fiscal year. In addition to the official policy, the council informally aims to maintain an additional 30 days in unassigned fund balance, for a total of 120 days.

The city's investment policy complies with state statutes and requires officials to report quarterly on holdings and earnings.

The city's home-rule charter limits the principal amount of bonds outstanding to no more than 10% of total taxable AV in the city and maximum maturity to 40 years. Weatherford also has a formal debt policy. While not comprehensive, the policy outlines the projects that can be funded with debt and the types of debt it can issue. Informally, officials follow basic parameters for debt issuance, including a 3% savings target for refundings and keeping debt service payments below 20% of expenditures.

Weatherford does not have a long-term rolling capital improvement plan, but maintains a capital needs list, which lists projects based on priority and identifies potential funding sources. However, the plan does not specify any timelines for completing or funding the projects.

Adequate budgetary performance

Weatherford's budgetary performance is adequate, in our opinion. The city had surplus operating results in the general fund of 2.0% of expenditures but a deficit result across all governmental funds of 6.6% in fiscal 2017. General fund operating results of the city have been stable over the past three years, measuring 0.3% in 2016 and 0.6% in 2015.

We have adjusted general fund and total governmental funds revenue for recurring transfers from the municipal utility system and the solid waste enterprise fund. We have increased general fund expenditures by recurring transfers to the debt service fund and nonmajor governmental funds. We have also reduced total governmental fund expenditures by capital expenditures funded with debt proceeds.

Including the adjustments, the general fund was balanced in the past three fiscal years, while total governmental funds recorded a deficit in fiscal 2017. The deficit was due to the late receipt of state revenue in the debt service fund. The revenue will be accounted for in the fiscal 2018 audit.

Major general fund revenue sources consist of sales taxes, ad valorem taxes, and transfers in from enterprise funds, accounting for about 40%, 22%, and 16%, respectively, of adjusted general fund revenue in fiscal 2017.

The fiscal 2017 surplus was mainly due to better-than-anticipated sales tax revenue, which grew 11.5% and was 15.0% above budget.

To provide a buffer for any declines in this potentially volatile revenue source, the city designates about 90% for recurring operations, with the remainder spent on one-time items. Thus, we believe Weatherford will be able to withstand revenue declines during economic downturns without material effects on its finances.

Based on the city council's direction to use excess reserves to fund one-time capital items, the adopted fiscal 2018 budget projects a 2.2% ($723,000) general fund deficit. The draw will align reserves with the council's 120-day target. The city expects to adopt a balanced budget for fiscal 2019, but may again use a portion of fund balance for nonrecurring expenditures.

Despite the potential draws, we anticipate that budgetary performance will remain at least adequate given the city's track record of conservative budgeting and historical budget-to-actual results.

Very strong budgetary flexibility

Weatherford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 43% of operating expenditures, or $13.5 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 consistent, totaling 43% of expenditures in 2016 and 44% in 2015.

Weatherford maintains very strong budgetary flexibility, and we believe that available fund balance will remain at or above 30% of expenditures over the outlook horizon, despite planned use of reserves for one-time items.

We anticipate that the city will maintain reserves in line with its formal and informal policies. The formal policy requires the city to maintain a 90-day contingency, or $6.9 million at fiscal year-end 2017, committed for stabilization arrangement in the general fund. The council has an informal target of another 30 days in unassigned fund balance, bringing the total to 120 days.

Very strong liquidity

In our opinion, Weatherford's liquidity is very strong, with total government available cash at 1.6x total governmental fund expenditures and 8.8x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

We believe the city will maintain its very strong liquidity given management's ability to maintain balanced operations and lack of plans to spend down material amounts of cash reserves in the next two years.

Weatherford's investments comply with Texas statutes and its formal investment policy. Its investments are held in rated public investment pools, certificates of deposits, and governmental securities, which we don't consider aggressive. Our opinion that the city maintains strong access to external liquidity is based on its history of issuing mainly tax-based debt in the past 20 years.

The city's series 2008 and 2016 COs as well as 2016 and 2017 tax notes were privately placed. The current par amount outstanding of $21.4 million accounts for about 18% of total direct debt. However, the debt contains no provisions, such as acceleration, that we view as a potential liquidity risk.

Weak debt and contingent liability profile

In our view, Weatherford's debt and contingent liability profile is weak. Total governmental fund debt service is 18.4% of total governmental fund expenditures, and net direct debt is 185.6% of total governmental fund revenue. Approximately 81.1% 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 additional debt plans within the next two years, but will likely issue debt within five years.

Management projects that new debt will include an interest-free loan from the Texas Department of Transportation of about $11 million, as well as a private placement of as much as $15 million for a new police station.

Weatherford's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 7.7% of total governmental fund expenditures in 2017, with 6.8% representing required contributions to pension obligations and 0.9% representing OPEB payments. The city made its full annual required pension contribution.

The city provides pension benefits through the Texas Municipal Retirement System, a nontraditional, joint-contributory, hybrid defined-benefit pension plan. Under state law, an actuary determines the contribution rate annually. The city has historically paid 100% of its required contributions. Weatherford's net pension liability for the plan was $15.2 million as of Sept. 30, 2017, and the plan reported a funded ratio of 81%, using a 6.75% discount rate.

The city offers its retired employees health insurance benefits through a single-employer defined-benefit OPEB plan. However, the plan is closed and only employees hired before Oct. 1, 2008 are eligible for benefits. The plan is funded on a pay-as-you-go basis and the OPEB liability was $16.5 million as of Dec. 31, 2016, the most recent actuarial valuation date. The city committed a portion of general fund balance to manage current and future OPEB costs. The reserve has been maintained at $1.25 million over the past three fiscal years.

The city also participates in the cost-sharing, multiple-employer defined-benefit group-term life insurance coverage operated by TMRS, known as the Supplemental Death Benefits Fund. Weatherford may terminate coverage and discontinue participation by adopting an ordinance before Nov. 1 of any year to take effect the following Jan. 1.

Given the current funded status of the city's pension plan and strategies to manage future costs, we do not believe pension and OPEB liabilities present material risk to its debt and contingent liability profile.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our view of the strength and stability of Weatherford's economy. In addition, we believe that strong management practices will support the city's financial profile and that it will maintain very strong flexibility and liquidity. Consequently, we do not expect to change the rating over the two-year outlook horizon.

Upside scenario

We could raise the rating following a sustained trend of higher income levels, combined with a material economic growth, leading to an improvement in market value per capita to levels commensurate with those of higher rated peers, assuming no change in other credit fundamentals.

Downside scenario

We could lower the rating if a trend of weakened budgetary performance results in material declines in flexibility to levels no longer comparable with those of peers.

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.