

**Summary:**

## Windcrest, Texas; General Obligation

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### Credit Profile

US\$7.4 mil GO bonds ser 2019A dtd 04/01/2019 due 02/15/2039		
<i>Long Term Rating</i>	AA/Stable	New
US\$2.0 mil GO bonds ser 2019B dtd 04/01/2019 due 02/15/2034		
<i>Long Term Rating</i>	AA/Stable	New

## Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Windcrest, Texas' series 2019A and 2019B general obligation (GO) bonds. The outlook is stable.

The bonds are the city's direct obligations, payable from a combination of the levy and collection of a continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property in the city. 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. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018, on RatingsDirect), we view the limited-tax GO debt pledge on par with the issuer credit rating, which is based on the city's general creditworthiness. State statutes limit the ad valorem tax rate for home rule cities to \$2.50 per \$100 of taxable assessed valuation (AV) for all city purposes. Administratively, the Texas attorney general will permit the allocation of \$1.50 of the \$2.50 maximum tax rate for ad valorem tax debt service. In fiscal 2019, the city's levy is well below the maximum at 32.75 cents per \$100 of AV, the city does not currently have a levy dedicated to debt service.

The series 2019A bond proceeds will be used to fund various street, sidewalk, and drainage projects throughout the city. The series 2019B proceeds will be used to acquire fire trucks and capital equipment for the city's fire department.

Windcrest's favorable proximity to downtown San Antonio has benefited the city by providing immense employment opportunities to Windcrest residents, as well as improving home values throughout the area tied to growth in the San Antonio-New Braunfels metropolitan statistical area (MSA). While we do not anticipate substantial property value growth over the medium term, due to the city's near build out development status, we believe values will continue to benefit from the expansion experienced in the local economy, in addition to potential economic development opportunities. The city's budgetary performance has been stable historically, allowing maintenance of its very strong reserve and liquidity levels. However, the city hasn't historically had an elevated debt burden, given its lack of public issuance, so we will monitor the relationship between the city's increased carrying charges and its budgetary performance in the coming years. However, we do not anticipate its increased debt profile will materially affect the city's budgetary performance.

The 'AA' rating reflects the following factors:

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- Very 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 methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2017, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 31% of operating expenditures;
- Very strong liquidity, with total government available cash at 21.6% of total governmental fund expenditures and 18.0x governmental debt service;
- Weak debt and contingent liability position, with debt service carrying charges at 1.2% of expenditures and net direct debt that is 142.8% of total governmental fund revenue; and
- Strong institutional framework score.

### Very strong economy

We consider Windcrest's economy very strong. The city, with an estimated population of 5,799, is located in Bexar County in the San Antonio-New Braunfels MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 114% of the national level and per capita market value of \$117,280. Overall, the city's market value grew by 9.3% over the past year to \$680.1 million in 2019. The county unemployment rate was 3.5% in 2017.

Windcrest spans over two square miles, located approximately 10 miles northeast of downtown San Antonio. Due to its close proximity to and participation in the San Antonio-New Braunfels MSA, the city has seen strong assessed value (AV) growth, as displayed by an AV increase of over 40% growth dating back to fiscal 2014. Growth is primarily due to organic property value growth within the city, according to management. Additionally, we believe residents within the city benefit from the ample employment opportunities within the MSA and many residents work in downtown San Antonio.

The city is primarily residential and near full build-out; however, a portion of the city recently was developed into a light industrial warehouse park. U.S. Autoforce, a major tire distributor and one of the city's principal taxpayers, is located within the warehouse park. Overall, we view the city's tax base as diverse, with the top 10 taxpayers accounting for only 16.4% of the city's total AV. Economic development includes the recent opening of a Holiday Inn Express, and the planned opening of a large grocery store. We anticipate the local economy will continue to be very strong over at least the medium term.

### Strong management

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not

formalize or monitor all of them on a regular basis.

Management utilizes three years of historical financial analysis when preparing revenue and expenditure assumptions for the subsequent year's budget. Throughout the fiscal year, city council is provided monthly budget to actual financial reports, and budget amendments are generally made once a year, although the city has the flexibility to make amendments as needed. While informal financial forecasting is conducted, there is no formalized long-term financial planning. However, the city maintains a five-year capital improvement plan, updated annually, though funding sources are not included. The city does not currently have a debt management policy, though management notes intentions to implement a plan over the near term.

The city has a formalized investment management policy and provides city council with quarterly investment holdings and performance reports. Finally, the city has a formal reserve policy to maintain a minimum of 25% of operating expenditures.

### **Adequate budgetary performance**

Windcrest's budgetary performance is adequate in our opinion. The city had operating deficits of negative 12.6% of expenditures in the general fund and of negative 9.3% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could improve from 2017 results in the near term.

When assessing the city's budgetary performance, we have adjusted for recurring transfers into the city's general fund from the non-major governmental funds for administrative expenditures incurred in the general fund. In fiscal 2017, the city ended the fiscal year with an operating deficit, despite increased property and sales tax revenues. Management notes that a one-time raise in salaries was the primary driver of the operating deficit. Based on unaudited draft results for fiscal 2018, revenues experienced another strong increase, demonstrated by an expected 6.4% increase in property tax revenues and sales tax revenues increased by approximately 6.2%. The city is anticipating an operating deficit for fiscal 2018, primarily due to intentional spending down of reserves closer to its 25% fund balance policy. With the relatively new addition of the Holiday Inn Express, the city has increased its hotel occupancy revenues by approximately 122%, from the prior fiscal year. Management notes that a portion of future hotel occupancy revenues will be transferred into the general fund to support operations. Additionally, management notes capital expenditures, specifically street maintenance, should be lower going forward with the projects that will be addressed with the 2019A issuance. Overall, we believe the city's revenue sources are diverse, with sales tax revenues comprising the largest amount of operating revenues at approximately 43.7%, while about 28.9% of general fund revenues came from property taxes, as of the most recent audited results.

Windcrest adopted a slight deficit for fiscal 2019; however, management anticipates ending the year with at least break-even results, or a slight surplus. Therefore, we expect the city's budgetary performance will remain at least adequate over the next two fiscal years.

### **Very strong budgetary flexibility**

Windcrest's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 31% of operating expenditures, or \$2.2 million. The city has maintained very strong reserves in recent years, in excess of its 25% formal reserve policy. The city has historically utilized reserves for capital purposes, but notes several major street projects will be addressed with the 2019A bond issuance, allowing less use of reserves for capital purposes in

future fiscal years. Due to the expected deficit in fiscal 2018, the city's reserves will be approximately 26.7% of operations, based on unaudited results. Going forward, management intends to build reserves to back over 30% of operations, and plans to maintain reserves above this level. Therefore, we anticipate its budgetary flexibility will remain very strong over the next two fiscal years.

### **Very strong liquidity**

In our opinion, Windcrest's liquidity is very strong, with total government available cash at 21.6% of total governmental fund expenditures and 18x governmental debt service in 2017. In our view, the city has satisfactory access to external liquidity if necessary. We do not view the city's current investments as aggressive, with investments held in certificates of deposit and state investment pools. Additionally, we do not believe the city has any contingent liability obligations that we view as a risk to its liquidity profile. Therefore, we anticipate the city will continue to maintain its very strong liquidity position over the next two years.

### **Weak debt and contingent liability profile**

In our view, Windcrest's debt and contingent liability profile is weak. Total governmental fund debt service is 1.2% of total governmental fund expenditures, and net direct debt is 142.8% of total governmental fund revenue. The 2019 A-B bonds will be the city's first publicly issued debt since 1979. Upon issuance, the city will have approximately \$9.8 million in debt outstanding, inclusive of the city's capital lease obligations. The city does not currently have additional debt plans over the next few fiscal years; therefore, we believe the city's debt profile will remain weak.

Windcrest's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 3.3% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution in 2017. Windcrest participates in the Texas Municipal Retirement System (TMRS), which is an agent multiple-employer hybrid pension plan administered by the State of Texas and it the city's largest plan. The required pension contribution is the city's actuarially determined contribution (ADC), which is calculated at the state level. Using reporting standards in accordance with Governmental Accounting Standards Board (GASB), The city's net pension liability measured as of Dec. 31, 2016, was \$688,027 (improved from \$625,437 in the prior year) and its GASB funded ratio was 92.15%. TMRS calculates the ADC using a level percent of payroll amortization, assuming 3% annual growth, which adds risk given that contributions are deferred into the future with the idea that growth will enhance affordability. TMRS also amortizes using a layered 25-year offsetting approach. This means that each year there is a loss, a new base is created to be amortized over 25 years, which we consider long. However, each year there is a gain, the largest loss is essentially reduced, decreasing overall contribution volatility. TMRS lists an equivalent single-amortization period for the city of 29 years for fiscal 2017.

Windcrest also provides group-term life insurance through the Supplemental Death Benefits Fund operated by TMRS; the city paid its annual required contribution in fiscal 2018, equal to \$5,321.

### **Strong institutional framework**

The institutional framework score for Texas municipalities is strong.

## Outlook

The stable outlook reflects our opinion that Windcrest's local economy will continue to be very strong and benefit from its participation in the broad and diverse San Antonio-New Braunfels MSA. Additionally, we believe the city will likely maintain its very strong reserve and liquidity positions, and that its debt profile will remain somewhat elevated, but will likely not deteriorate or affect its budgetary performance, given there are no additional debt plans over the next few fiscal years. Therefore, we do not anticipate changing the rating within the two-year outlook horizon.

### Upside scenario

We could raise the rating if budgetary performance were to improve to levels commensurate with higher rated peers, demonstrated by consecutive years of operating surpluses, coupled with an improved debt profile and further depth and diversity in the local economy.

### Downside scenario

Alternatively, we could take a negative rating action if the city's budgetary performance were to deteriorate, leading to sustained draws on its very strong reserve levels, causing deterioration to levels no longer in compliance with the city's reserve policy.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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