

# RatingsDirect®

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## Summary:

# Westlake, Texas; General Obligation

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### Credit Profile

US\$9.2 mil Combination tax and rev certs of oblig ser 2016 dtd 12/01/2016 due 02/15/2046

<i>Long Term Rating</i>	AAA/Stable	New
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Westlake GO

<i>Long Term Rating</i>	AAA/Stable	Upgraded
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#### Westlake GO

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded
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Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings raised its long-term and underlying ratings on Westlake, Texas' general obligation (GO) bonds to 'AAA' from 'AA+'.

We base the higher rating on the city's expanding economy and extremely high per capita incomes, and consistent financial performance, as demonstrated by management's ability to maintain very strong reserves above 75% of expenditures.

At the same time, we assigned our 'AAA' long-term rating to the city's series 2016 combination tax and revenue certificates of obligation. The outlook on all ratings is stable.

Westlake's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013 on RatingsDirect, the city has predominantly locally derived revenue from property and sales taxes with independent taxing authority and independent treasury management from the federal government.

The series 2016 certificates are secured by a limited ad valorem tax levied on all taxable property within the city. The maximum allowable rate in the state of 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 levy is well below the maximum, at 13.7 cents, 0.813 cents of which is dedicated to debt service. The certificates are additionally secured by a limited pledge of surplus revenues (not to exceed \$1,000) from the city's waterworks and sewer utility system. We rate the bonds under our GO criteria because we do not differentiate between the city's limited- and unlimited-tax pledges due to its tax rate flexibility, very strong liquidity, and high investment-grade debt. Proceeds will be used to finance public safety related capital projects.

The ratings reflect our assessment of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA), but a concentrated local tax base;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2015 of 100% of operating expenditures;
- Very strong liquidity, with total government available cash at 81.7% of total governmental fund expenditures and 7.4x governmental debt service, and access to external liquidity that we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 11% of expenditures and net direct debt that is 99% of total governmental fund revenue; and
- Strong institutional framework score.

### **Very strong economy**

We consider Westlake's economy very strong. The city, with an estimated population of 1,200, is located in Denton and Tarrant counties in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 227% of the national level, which we view as extremely high and a positive credit factor and per capita market value of \$920,897. Overall, the city's market value grew by 16.7% over the past year to \$1.1 billion in 2017. Constraining Westlake's economy is a concentrated local tax base, with the 10 largest taxpayers accounting for 38.8% of the total tax base. The weight-averaged unemployment rate of the counties was 4.2% in 2015.

Serving a population of roughly 1,200 and encompassing portions of Denton and Tarrant counties, Westlake is approximately 25 miles northeast of Fort Worth, 30 miles west of Dallas and 18 miles south of Denton. Its favorable location among the three leading regional cities offers residents several employment opportunities, including nearby Dallas-Fort Worth International Airport and Fort Worth's Alliance Gateway Airport. The city's tax base, while predominantly residential, also has a significant commercial base as well, making up approximately 55%, and 39% of 2017 assessed value (AV), respectively. According to representatives, the average home value is \$1.2 million. Single family and mixed-use development construction continues to support tax base growth, including a new estate home development of 92 sites ranging in home value from \$2 million to \$5 million. The city's commercial presence includes major employers and taxpayers such as Deloitte University, an international training facility for Deloitte; Fidelity; and the Solana complex. The Solana mixed-use complex contains several offices, eateries, and a hotel. Continued growth in each of these sectors has supported 25% cumulative AV growth over the past five years to \$1.1 billion. City officials attribute residential demand to the city's favorable location as well as the opening of a local charter school, Westlake academy. Westlake's sizeable commercial presence attributes to its concentrated tax base. However, officials have no concerns with any of the city's leading taxpayers and employers. Additionally, continued economic expansion has resulted in improvement of tax base concentration from 41% in fiscal 2013 to 38% in fiscal 2017. We anticipate further planned residential and commercial construction to continue to support local tax base growth and further diversification over the next two years.

### **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.

Highlights of the city's practices include its:

- Revenue and expenditure assumptions based, in part, on five years of historical trends and estimates of the city's needs;
- Quarterly budget reports to the city council on a year-to-date comparison of the budget and amendments performed as needed;
- Formal investment policy that management reviews annually with quarterly reports on investment performance and holdings to the council;
- Formal long-term financial plan and five-year forecast of revenue and expenditures across all funds;
- Rolling five-year capital plan that identifies funding sources and uses; and
- Formal minimum general fund balance policy of maintaining 90 days' operating expenditures in available fund balance.

The city currently lacks a debt management policy.

### **Strong budgetary performance**

Westlake's budgetary performance is strong in our opinion. The city had operating surpluses of 13.6% of expenditures in the general fund and of 4% across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

After adjusting for recurring transfers and large one-time expenditures, general fund operational surpluses in each of the past three audited years support the city's very strong budgetary performance. Sales tax is the city's leading revenue source followed by property taxes, accounting for 45% and 16% of general fund revenue, respectively. Sales tax has grown 11.5% annually during the last three audited years. The city estimates the city will finish with another \$452,000 or 1.2% surplus in the general fund in 2016. The city has conservatively budgeted for a total governmental fund deficit in fiscal 2017, which we believe could lead to structural deterioration from the city's previously very strong performance in 2015. However, the city operational performance has demonstrated the ability to exceed budgeted expectations, indicated by an \$822,561 positive budgeted variance in 2015. Given the city's conservative budgetary practices in addition to stable growth in local revenues, we expect the city to maintain strong budgetary performance during the current and subsequent fiscal years.

### **Very strong budgetary flexibility**

Westlake's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2015 of 100% of operating expenditures, or \$7.4 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Westlake currently maintains available fund balances of more than 75% of expenditures, which we believe to be exceptional. In fact, management has maintained available fund balances of more than 100% of expenditures in each of the past three audited fiscal years. Officials are projecting the fund balance ratio will remain more than 100% in

fiscal years 2016. Based on projections, we do not expect the budgetary flexibility score to decrease below what we consider a very strong level. Flexibility is additionally supported by the city's formal fund balance policy equal to a minimum of 90 days of operating expenses.

### **Very strong liquidity**

In our opinion, Westlake's liquidity is very strong, with total government available cash at 81.7% of total governmental fund expenditures and 7.4x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Westlake has demonstrated strong access to capital markets with several GO-supported debt issues over the past 20 years. The city historically had what we consider very strong cash balances. Because the city has no significant plans to spend down reserves, we do not believe its cash position will likely weaken materially. The city's investments comply with state statutes. At fiscal year-end 2015, city investments held liquid maturities in TexPool and commercial paper, which we do not consider aggressive.

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

In our view, Westlake's debt and contingent liability profile is weak. Total governmental fund debt service is 11% of total governmental fund expenditures, and net direct debt is 99% of total governmental fund revenue. The city currently has no plans to issue additional debt over the next two years.

Westlake's pension contributions totaled 1.9% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015. Westlake provides pension benefits through the statewide Texas Municipal Retirement System. The city historically paid its annual pension cost in full. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the city's net pension liability was \$707,597 as of Dec. 31, 2014. The plan was 83.7% funded based on its net position as a percent of the total pension liability. (For additional details on GASB Nos. 67 and 68, please see our report, titled "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect.) The city does not offer other postemployment benefits.

### **Strong institutional framework**

The institutional framework score for Texas municipalities is strong.

## **Outlook**

The stable outlook reflects our opinion that Westlake will likely continue to benefit from its location in the Dallas-Fort Worth-Arlington MSA, allowing for continued tax-base growth and diversification. The outlook also reflects our expectation that the city will likely maintain its very strong budgetary flexibility and strong budgetary performance. We do not expect to change the rating during the two-year outlook period. Finally, the outlook also reflects our expectation that the city's debt and contingent liabilities profile will likely remain weak but that the city will likely prudently issue additional debt in a manner that will not significantly increase overall budgetary pressure related to debt service carrying charges. We could lower the rating if the city were to experience multiyear financial deterioration resulting in a material reduction of available reserves, coupled with an elevated debt profile, and weakening economic

characteristics.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the 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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