

# RatingsDirect®

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## Summary:

# Alamo Heights, Texas; General Obligation

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## Table Of Contents

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Rating Action

Stable Outlook

## Summary:

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### Credit Profile

US\$13.25 mil GO bnds (taxable) ser 2021 dtd 06/01/2021 due 02/15/2046

*Long Term Rating* AAA/Stable New

Alamo Heights GO bnds

*Long Term Rating* AAA/Stable Affirmed

## Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Alamo Heights, Texas' \$13,250,000 taxable general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's previously issued GO debt. The outlook is stable.

The series 2021 bonds, as well as the city's GO debt outstanding, constitute direct obligations of the city, payable from the proceeds of a continuing, direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within its borders. Despite state statutory tax rate limitations, we make no distinction between the city's limited-tax debt rating and its general creditworthiness because the ad valorem taxes are collected from a broad tax base, and because there are no restrictions on what the limited tax can be used for, which supports our view of the city's overall ability and willingness to pay debt service. State statutes limit the ad valorem tax rate for cities to \$2.50 per \$100 of taxable assessed value (AV) for all purposes. In addition, 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 2020, the city's total levy was well below the maximum at 38.6 cents per \$100 of AV, 5 cents of which is dedicated to debt service. Bond proceeds will be used for drainage projects in the city.

Alamo Heights' GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013 on RatingsDirect, the city has predominantly (96%) locally derived general fund revenue sources with independent taxing authority and independent treasury management from the federal government.

### Credit overview

The city features very strong economic wealth and income metrics comparable with other 'AAA' credits, historically strong budgetary performance, and large reserves approaching 60% of expenditures. Sales taxes remain stable, despite the COVID-19 pandemic, due in part to the city's largest sales tax remitter, which is a grocery store. Although Bexar county and San Antonio rely heavily on tourism, which was materially affected during the pandemic, Alamo Heights has maintained stable revenue, and conservative budget assumptions have kept operations balanced. The city's total direct debt burden has increased to \$18,770,000, but the city increased the debt service millage with voter approval by two cents to adjust for higher debt service, and given historical budgetary performance, we believe the city will

maintain its very strong reserves moving forward.

The rating reflects our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 58% of operating expenditures;
- Very strong liquidity, with total government available cash at 103.0% of total governmental fund expenditures and 12.0x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 8.6% of expenditures and net direct debt that is 144.6% of total governmental fund revenue; and
- Strong institutional framework score.

### **Environment, social, and governance factors**

We analyzed the district's environmental, and risks relative to its credit factors, and we determined that all are in line with our view of the sector standard. We view the city's governance risks as slightly lower than its peers given its formalized policies and proactive measures such as increasing the debt service millage.

## **Stable Outlook**

### **Downside scenario**

We could consider a lower rating if the city's reserves materially decline, or if unexpected debt issuances worsen the city's debt profile.

### **Very strong economy**

We consider Alamo Heights's economy very strong. The city, with an estimated population of 7,232, 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 211% of the national level and per capita market value of \$264,829. Overall, the city's market value grew by 2.3% over the past year to \$1.9 billion in 2021. The county unemployment rate was 3.1% in 2019.

The city is an affluent residential bedroom community located just 4.5 miles north of downtown San Antonio and just to the north of the San Antonio Zoo. Although the city does have a modest commercial presence, along two main thoroughfares, the tax base largely reflects the residential nature; 87% of values come from single-family homes. Additionally, the city is fully encapsulated by the city of San Antonio, with no room for expansion. Given this built out status, the city relies on redevelopment of existing properties and appreciation of values. Two projects recently were completed, Magnolia Heights, a mixed-housed development, and a four-story office building. Management reports

there are inquiries into further infill developments for both residential and office at this time, but all of these projects are early in the planning phase.

Given the largely residential nature of the city, officials report minimal impact as a result of the pandemic. The city's largest taxpayer, both property and sales, is a HEB grocery store that has benefitted from stay-at-home orders. Assessed values continue to steadily grow, with management expecting approximately 3%-3.5% increase in the next year.

### **Very strong management**

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The city bases its revenue and expenditure assumptions on an analysis of historical data and consultations with the appraisal district. Detailed budgetary performance reports are presented to elected officials quarterly, along with a report on investment holdings and earnings. As part of the annual budget process, the city updates its five-year projections for the general and utility funds, which it uses to identify potential shortfalls or budget gaps in out years. The city also maintains a five-year capital improvement plan that is also updated as part of the budget process, with projects primarily funded with operating revenues. This is because the city also has a formal debt management policy, that not only outlines the types and purposes of debt that can be issued, but also limits the city's debt to no more than 1% of assessed values. With regards to its minimum fund balance, the city has also adopted a general fund target of not less than 25% of expenditures, a level that it has remained in compliance with.

### **Strong budgetary performance**

Alamo Heights's budgetary performance is strong in our opinion. The city had operating surpluses of 9.7% of expenditures in the general fund and 21.5% across all governmental funds in fiscal 2020. While we expect Alamo Heights to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

Our view of the city's budgetary performance includes adjustments made to account for recurring transfers in and out, as well as to adjust for a non-recurring transfer to the capital projects fund in fiscal 2020. The city has historically maintained strong budgetary performance, driven largely by assessed valuation (AV) growth. Given that property taxes are the largest revenue stream, accounting for around 52% of general fund resources, this growth is the primary driver behind the strong results. Additionally, the city's sales tax revenues continue to grow, though they comprise a much more modest share of the budget (at just 11%).

Fiscal 2020 results continued this trend, with a \$900,000 operating surplus when accounting for the aforementioned one-time transfer. Coming into fiscal 2020, with the onset of the pandemic beginning in March, the city has faced increasing expenses in the form of personal protective equipment purchases and employee overtime costs. However, the city expects to be fully reimbursed from federal relief funds for the expenses that have been incurred. Officials attribute the sales tax growth in fiscal 2020 to the fact that HEB is the largest sales tax remitter and sales at the grocery store are up as residents have been working from home or were quarantined over the last six months.

Entering fiscal 2021, the city's proposed budget reflects another anticipated surplus. Officials state that property tax

revenue is on track to meet budget estimates, and sales tax revenues is 3% over budget as of May 2021. Expenditures are well within budgeted parameters as well and officials expect another surplus. Given the city's consistent track record, we also believe that performance will remain strong in the near term, especially since the city increased its debt service tax rate by two cents to accommodate the series 2021 issue, an increase approved by voters. Officials may spend down \$800,000 for a one-time capital project which could result in a slight spenddown, but aside from this one project, management has no plans to spend down reserves in the future.

### **Very strong budgetary flexibility**

Alamo Heights's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 58% of operating expenditures, or \$5.7 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 historically maintained very strong budgetary flexibility, above 30% of expenditures, over the years. Surpluses in each of the last three fiscal years has driven reserves well in excess of 50% and approaching 60% in fiscal 2020. Officials report that they may spend approximately \$800,000 to augment bond proceeds for a drainage and storm water project within the next two years. Management reports no plans to spend down reserves and no indication from city council to spend down.

### **Very strong liquidity**

In our opinion, Alamo Heights's liquidity is very strong, with total government available cash at 103.0% of total governmental fund expenditures and 12.0x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

The city has demonstrated its access to external liquidity through its somewhat infrequent debt issuances over the past two decades. As of Sept. 30, 2020, investments were primarily held in various local government investment pools, with the remainder in certificates of deposit. We do not consider these investments to be aggressive. We understand that the city does not have any privately placed debt or other contingencies that would weaken our assessment of the city's liquidity profile.

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

In our view, Alamo Heights's debt and contingent liability profile is weak. Total governmental fund debt service is 8.6% of total governmental fund expenditures, and net direct debt is 144.6% of total governmental fund revenue.

Following this issuance, the city will have just \$5.4 million in debt outstanding. However, officials are calling an election to authorize the issuance of up to \$13.3 million to fund storm water and drainage improvements. The city will leverage grant funding to complete the project, combined with the GO issuance and \$2.1 million in certificates of obligation. While the potential issuance will result in an elevated debt load, we don't expect it to materially weaken our view of the city's debt profile.

Alamo Heights's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 9.6% of total governmental fund expenditures in 2020. The city made its full required pension contribution in 2020.

We do not view pension and OPEB liabilities as an immediate source of credit pressure, as required contributions represent an affordable share of total governmental expenditures. Alamo Heights's combined required pension and

actual other postemployment benefits (OPEB) contributions totaled 9.6% of total governmental fund expenditures in 2020. The city made its full annual required pension contribution in 2020.

The city participated in the following plans as of Dec. 31, 2019:

- Texas Municipal Retirement System (TMRS): 81% funded with a net pension liability of \$5.4 million
- TMRS Supplemental Death Benefit OPEB Plan: unfunded with a net OPEB liability of \$319,000

TMRS' actuarially determined contributions fell short of our minimum funding progress (MFP) metric. The MFP metric assesses whether the most recent employer and employee contributions cover total service cost, plus unfunded interest cost, plus one-30th of the principal. When MFP is achieved, this indicates that an issuer has strong funding discipline that aims to ensure timely progress on reducing its plans' liabilities. Given that this is an agent plan, assets are 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.

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. The city may terminate coverage and discontinue participation by adopting an ordinance before Nov. 1 of any year to be effective the following Jan. 1. It has historically contributed 100% of the contractually required rate as determined by an annual actuarial valuation.

### **Strong institutional framework**

The institutional framework score for Texas municipalities is strong.

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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