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McGRAW HILL FINANCIAL

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## Summary:
# Brady, Texas; General Obligation

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Summary:

# Brady, Texas; General Obligation

| Credit Profile | | |
|---|---|---|
| **Brady** | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Brady, Texas' series 2012 general obligation (GO) refunding bonds to 'AA-' from 'A+'. The outlook is stable.

The upgrade is based on the city's improving credit conditions. These include Brady's very strong debt profile, with all of its GO debt fully supported by the enterprise funds, strong budgetary performance, and the ongoing maintenance of very strong financial reserves.

The city's ad valorem tax pledge secures the bonds.

The city can assess, levy, and collect continuing, direct ad valorem tax on all taxable property. This tax is sufficient to provide for the payment of, principal of, and interest on all ad valorem tax debt, within the limit prescribed by law. Article XI, Section 5 of the Texas Constitution is applicable to the city and limits the maximum ad valorem tax rate of the city to $2.50 per $100 taxable assessed valuation (AV) for all city purposes; however, the Texas Attorney General has adopted an administrative policy that prohibits municipalities such as Brady from issuing debt if debt issuance produces debt service requirements exceeding what the city can pay from $1.50 of the foregoing $2.50 maximum tax rate, as calculated at the time of issuance. The city currently levies a total ad valorem tax of 30 cents per $100 of AV.

The 'AA-' rating reflects our assessment of the city's:

- Very weak economy, with market value per capita of $40,818 and projected per capita effective buying income at 84.6% of the national level;
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund and balanced operating results at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash of 1.9x total governmental fund expenditures and 30.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with no net direct debt but debt service carrying charges of 6.1% of expenditures and rapid amortization with 79.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.


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### Very weak economy

We consider Brady's economy very weak. The city, with an estimated population of 5,500, is located in McCulloch County. The city has a projected per capita effective buying income of 84.6% of the national level and per capita market value of $40,818. Overall, the city's market value grew by 7.0% over the past year to $224.5 million in 2015. The county unemployment rate was 4.3% in 2014.

The city is about 135 miles northwest of Austin, and it is the surrounding area's principal commercial center. The principal economic drivers include wool and mohair processing, sand mining, furniture and appliance manufacturing, oil field equipment, ranching, and tourism.

### Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Key practices include monthly budget updates to the city council with formal amendments performed as needed, a formalized investment policy that follow state guidelines with monthly reports on holdings and performance to the council, revenue and expenditure assumptions based on a minimum three years of historical data, a formalized reserve policy of maintaining a minimum two months' operating expenditures, and a five-year capital improvement plan with funding identified for some of the out-year projects. The city currently lacks formal long-term financial and debt management policies.

### Strong budgetary performance

Brady's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 2.1% of expenditures, and balanced results across all governmental funds of 0.3% in fiscal 2014.

For fiscal 2015, management has indicated that it expects balanced operations on the year and does not anticipate any unusually large outlays. As such, we anticipate that the city's budgetary performance will remain at a level we consider to be strong within the near term.

### Very strong budgetary flexibility

Brady's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 26% of operating expenditures, or $1.5 million.

Management's estimates indicate that the city will end fiscal 2015 with an available general fund balance of $1.5 million. This equals 21.8% of 2015's budgeted general fund expenditure, which we consider very strong. Although this would represent a 4% loss in reserves relative to expenditures, we believe that Brady's assumptions are likely conservative and anticipate that the reserve level for fiscal 2015 will be in compliance with the city's 25% reserve policy and could continue the fund balance's growth trend of 14.8% in fiscal 2012.

### Very strong liquidity

In our opinion, Brady's liquidity is very strong, with total government available cash of 1.9x total governmental fund expenditures and 30.6x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.



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Our belief that the city has strong access to external liquidity is based on Brady's historical issuance of GO debt. We also view the city's investments as conservative, consisting entirely of short-term certificates of deposit.

### Very strong debt and contingent liability profile

In our view, Brady's debt and contingent liability profile is very strong. Brady does not have any net direct debt outstanding, but total governmental fund debt service is 6.1% of total governmental fund expenditures. Approximately 79.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The utility fund supports all of the city's GO debt and, therefore, the city does not levy property tax for debt-service purposes. We expect that this will continue for the foreseeable future, given the current strength of the coverage. City officials have indicated that they plan on issuing GO debt for water-related projects within the next 24 months; however, we anticipate that this debt will also be fully supported by the utility funds.

Brady's combined pension and other postemployment benefits (OPEB) contributions totaled 5.2% of total governmental fund expenditures in 2014. The city made its full annual required pension contribution in 2014.

The city provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), a multiple-employer public employee retirement system. Brady also participates in the cost-sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS, known as the Supplemental Death Benefits Fund.

### Strong institutional framework

The institutional framework score for Texas municipalities is strong.

## Outlook

The stable outlook reflects our expectation that Brady will maintain its strong financial performance while the local economy remains a limiting factor within the medium term. Although a substantial expansion of the economy, particularly the wealth levels as measured by market value per capita, could lead to a higher rating, we don't view this as likely within the next two years. Conversely, substantial deterioration in the city's budgetary performance that leads to degradation in the financial reserves would likely cause a downgrade. We also view this as unlikely within the two-year outlook horizon and don't anticipate a rating change within that timeframe.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009


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## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

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