MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Boerne, TX's $9M GOLT bonds

Global Credit Research - 22 Oct 2014

Affirms Aa3 on $26.3 million of outstanding rated GOLT debt

BOERNE (CITY OF) TX
Cities (including Towns, Villages and Townships)
TX

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, Series 2014	Aa3
Sale Amount $9,025,000	
Expected Sale Date 10/31/14	
Rating Description General Obligation Limited Tax	

Moody's Outlook NOO

Opinion

NEW YORK, October 22, 2014 --Moody's Investors Service has assigned a Aa3 rating to the City of Boerne's, TX $9.0 million General Obligation Refunding Bonds, Series 2014. Concurrently, we have affirmed the Aa3 rating on the city's $26.3 million of outstanding GOLT debt. Proceeds from the current offering will refund certain maturities of the city's outstanding Series 2007 bonds for net present value savings. The bonds are secured by an ad valorem tax on all taxable property in the city, within the limits prescribed by law.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the city's moderately-sized and growing tax base, above average socioeconomic profile, healthy financial position and manageable debt burden.

STRENGTHS:

-Growing tax base

-Above average socioeconomic profile

-Healthy financial position

CHALLENGES:

-Tax base remains slightly below average for the rating category

-Direct debt burden is above average compared to national peers

DETAILED CREDIT DISCUSSION

RESIDENTIAL DEVELOPMENT DRIVES GROWTH FOR MODERATELY-SIZED, SAN ANTONIO AREA TAX BASE

We expect the city's moderately-sized tax base to grow given ongoing residential development and its favorable location in the San Antonio metropolitan area. The City of Boerne is located about 30 miles north of downtown San Antonio (GOLT Aaa negative) along Interstate Highway 10. This favorable location to San Antonio has driven residential development and a 69.5% increase in population between 2000 and 2010. The tax base more than doubled in size between 2005 and 2010 before a modest 0.4% decline in fiscal 2011 due to a downturn of the housing market. Since the decline, the tax base increased an average of 4.4% annually over the last five years as the housing market has rebounded. Full values grew 5.5% for fiscal 2015 to a moderately-sized $1.3 billion. Fiscal 2015 taxable values are primarily comprised of single-family and multi-family residential properties (60.0%) and commercial/industrial properties (31.5%). Officials project 350 to 450 new homes will be built per fiscal year through 2018 and estimate new residential construction will add a substantial $561 million to the tax base over that period. In addition, the city is building a frontage road along Interstate Highway 10 to facilitate commercial development over the long term. The city's socioeconomic profile remains above average. Median family income of $80,357 is equal to 124% of the U.S. median according to the 2012 American Community Survey. The July 2014 unemployment rate of 4.5% was below both 5.3% state and 6.5% US unemployment rates for the same period.

STABLE FINANCIAL OPERATIONS AND HEALTHY RESERVE LEVELS

We believe that the city's financial position will remain strong given healthy reserve levels and conservative budgeting practices. The city's financial management policies include a goal to maintain an unassigned General Fund balance equivalent to six months of operating expenditures and includes certain action items to rebuild the unassigned balance if it falls below three months of operations. Actual reserve levels at fiscal year-end (September 30) have approximated six months of operating expenditures for the last five years, which we anticipate to continue providing a healthy level of reserves in the near term. Fiscal 2013 operations, including the General Fund and Debt Service Fund, were primarily supported by sales tax (36.4%), property tax (26.4%), and franchise fees (14.5%).

In fiscal 2013, the city budgeted a $1.2 million draw on fund balance, but generated a $1 million surplus. Sales tax revenue exceeded budget by $487,000 and actual operating expenditures were a favorable $1.2 million below budget. The operating surplus improved the total General Fund balance to $7.1 million and a strong 56.4% of revenues. The unassigned General Fund balance increased to $6.9 million and a healthy 54.5% of revenues. The fiscal 2014 budget reflected a 3% increase of appropriations, to $13 million, and was balanced. Officials report a $1.2 million decline of fund balance to fund the city's share of a road improvement project at fiscal year-end 2014, but note the General Fund will be reimbursed from proceeds of a future debt issuance. The fiscal 2015 operating budget indicates a $739,000 structural deficit as budgeted General Fund expenditures are $14.3 million, a 9.7% increase from the prior year. The budget conservatively projects property tax and sales tax revenues and officials anticipate the budget gap to narrow by fiscal year-end. We

expect the city's strong financial position will continue in the near term.

MANAGEABLE DEBT BURDEN WITH LIMITED BORROWING PLANS; MODERATE PENSION BURDEN

The city's direct debt burden is expected to remain manageable despite slow principal amortization given projected tax base growth and limited future borrowing plans. Inclusive of the current sale, the city's direct debt burden is above average at 2.0% and the overall debt burden is elevated at 5.9%, each expressed as a percentage of fiscal 2015 full valuation. The elevated overall debt burden primarily reflects the overlapping debt of Boerne Independent School District (GO Aa2). Principal payout is slow with 46.8% of principal retired in 10 years. Officials expect to issue $2 million of additional GOLT debt over the near term for road construction. Potential additional borrowing over the longer term horizon includes $10 million for a new city hall and $3 million for parks projects; however, any additional debt issuance will be contingent upon tax base growth. All of the city's outstanding debt is fixed rate and the city does not have any derivative agreements.

Boerne has a manageable employee pension burden based on its participation in the Texas Municipal Retirement System, an agent multi-employer retirement plan administered by the State of Texas (GO Aaa stable). Reported unfunded pension liabilities consist of $12.0 million as of the December 31, 2012 valuation. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $28.3 million or a moderate 1.97 times fiscal 2013 operating revenues. For more information on Moody's insights on employee pensions and the related credit impact on companies, governments, and other entities across the globe please visit Moody's on Pensions at www.moodys.com/pensions.

WHAT COULD CHANGE THE RATING - UP

-Continued expansion of the tax base

-Trend of stable financial operations and maintenance of healthy reserves

WHAT COULD CHANGE THE RATING - DOWN

-Material decline in fund balance

-Outsized direct debt burden

KEY STATISTICS

FY 2015 Full Value: $1.3 billion

FY 2015 Full Value Per Capita: $127,987

2012 ACS Median Family Income as a % of the US: 124.4%

FY 2013 Operating Fund Balance as a % of Operating Revenues: 54.7%

5 Year Dollar Change in Fund Balance as a % of Operating Revenues: 14.4%

FY 2013 Operating Cash Balance as a % of Operating Revenues: 52.5%

5 year Dollar Change in Cash Balance as a % of Operating Revenues: 13.7%

Institutional Framework: Aa

Operating History: 5 Year Average of Operating Revenues/Operating Expenditures: 1.03x

Net Direct Debt/Full Value: 2.0%

Net Direct Debt/Operating Revenues: 1.83x

3 year Average of Moody's Adjusted Net Pension Liability/Full Value: 1.45%

3 year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 1.35x

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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