

RatingsDirect®

Summary:

Kennedale, Texas; General Obligation

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Credit Profile

Kennedale GO (AGM)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Kennedale GO (ASSURED GTY)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has affirmed its 'A+' long-term rating on Kennedale, Texas' existing general obligation (GO) debt based on its local GO criteria released Sept. 12, 2013. The outlook is stable.

The rating reflects our assessment of the following factors for the city, specifically its:

- Strong economy, which benefits from participation in the broad and diverse economy of the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA);
- Strong budgetary flexibility, with 2013 unaudited available general fund reserves at 8.5% of general fund expenditures;
- Very weak budgetary performance due to the loss of the city's top two largest sales taxpayers;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Adequate management, with standard financial policies;
- Adequate debt and contingent liability profile, with rapid amortization; and
- Strong Institutional Framework.

Strong economy

We consider Kennedale's economy to be strong, with access to the broad and diverse economy of the Dallas-Fort Worth-Arlington MSA. The city is approximately 11 miles southeast of Fort Worth and serves an estimated population of 6,700. The projected per capita effective buying income is adequate, in our view, at 106.7% of the U.S. level. Per capita market value was an adequate \$81,345 for fiscal 2013. Assessed value (AV) has fluctuated since 2008, and declined approximately 1% in fiscal 2013 from the previous year. We expect AV to stabilize and even increase about 5% in 2014 as a result of several new housing startups in the area. We believe the property tax base is diverse, with the 10 leading taxpayers accounting for 17.0% of 2013 AV.

Strong budget flexibility

In our opinion, Kennedale's budgetary flexibility is strong, with available general fund reserves at 17.0% of expenditures in fiscal 2012. Due to planned drawdowns of the general fund balance to support capital projects, the available general fund balance has declined since 2009, and we believe it will fall below \$500,000 in both fiscal years 2013 and 2014. The available general fund balance for fiscal 2013 is projected to be \$471,000, or what we view as a strong 8.5% of expenditures. In 2014, the final planned year to draw down the fund balance, the available general fund

balance an estimated \$341,000, or 6.1% of expenditures, which we believe is adequate.

Very weak budgetary performance

The city's budgetary performance is very weak, in our opinion, with a 2.6% general fund deficit and an 18.2% total governmental funds deficit at fiscal year-end 2012. Kennedale recently made several operational efficiencies with the expectation that general fund revenues will decline 20.0%, to an estimated \$5.3 million in 2013 from \$6.3 million in 2012, in part due to the loss of the city's two largest sales taxpayers. With the structural cuts and the planned capital expenditures coming to an end, we estimate that Kennedale will experience a 5.2% general fund deficit and a 5.8% total governmental funds deficit in 2013.

Very strong liquidity

Supporting the city's finances is what we consider to be very strong liquidity, with total government available cash at 29.9% of total governmental fund expenditures and total government available cash at more than 100% of total governmental fund annual debt service. We believe Kennedale has good access to external liquidity, as its GO and revenue debt issuances in the past decade demonstrate.

Adequate management

We consider the city's management practices "standard" under our Financial Management Assessment methodology, indicating that practices exist in most areas, although governance officials might not formalize or regularly monitor them. Kennedale has a formal long-term capital improvement plan and reviews it with the council annually. Management calculates revenue and expenditure estimates using historical sales tax trends, AV growth, and personnel costs. The council performs budget amendments, as needed, to address expenditure reclassifications and additional expenses; it approves these amendments according to management's recommendation. The city has a formal investment policy, in which staff and the council review compliance monthly. Although officials have an adopted formal general fund reserve policy of maintaining at least 25% of operations in reserve, they currently do not comply with this policy.

Adequate debt and contingent liability profile

In our opinion, Kennedale's debt and contingent liability position is adequate, with total governmental funds debt service at 13.4% of total governmental funds expenditures in 2012 and net direct debt at 152.6% of total governmental funds revenue projected in fiscal 2014. In addition, overall net debt equals 7.3% of market value and the amortization schedule is rapid, with 72.7% of principal scheduled to be retired in 10 years. Management is determining if it will issue short-term notes to cover 20% of a matching grant, approximately \$240,000.

Kennedale provides pension benefits through a nontraditional, joint contributory, hybrid-defined benefit plan: the Texas Municipal Retirement Plan (TMRS). The TMRS fund was 73.3% funded as of Dec. 31, 2011, resulting in a \$2.6 million unfunded actuarial accrued liability. The pension benefits are 4.1% of total governmental expenditures. The city provides limited other postemployment benefits through TMRS, but the cost has been determined to be immaterial.

Strong Institutional Framework

We consider the Institutional Framework for Texas' cities as strong. See Institutional Framework Overview: Texas Local Governments, published Sept. 12, 2013.

Outlook

The stable outlook reflects our expectation that Kennedale's economy will continue to benefit from residents' access to employment opportunities throughout the Dallas-Fort Worth-Arlington MSA. The outlook also reflects our belief that the total available general fund balance will decline below \$500,000 over the next two audited fiscal years, and it will take the city several years to rebuild its fund balance to the same level it was at in 2009 before the planned capital expenditures. Although we do not expect to raise or lower the rating in the two-year outlook horizon, we could raise the rating if there is a substantial increase in the general fund's balance and budgetary performance improves. However, continual general fund declines, or deterioration to Kennedale's budgetary flexibility could put negative pressure on the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments, Sept. 12, 2013

Related Research

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

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