S&P Global
Ratings

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Summary:

Lubbock, Texas; General Obligation

Primary Credit Analyst:
Amahad K Brown, Dallas + (214) 765-5876; amahad.brown@spglobal.com

Secondary Contact:
Andy A Hobbs, Dallas + (972) 367-3345; Andy.Hobbs@spglobal.com

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Credit Profile		
US$18.375 mil tax and wtrwrks sys surplus rev certs of oblig ser 2018A dtd 04/15/2018 due 02/15/2038		
Long Term Rating	AA+/Stable	New
US$16.23 mil tax and wtrwrks sys surplus rev certs of oblig (taxable) ser 2018B dtd 04/15/2018 due 02/15/2038		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings has assigned its 'AA+' long-term rating to Lubbock, Texas' series 2018A and 2018B tax and waterworks system surplus revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the city's previously issued certificates and general obligation (GO) debt. The outlook is stable.

The series 2018 certificates are a direct obligation of the city, payable from a combination of the levy and collection of a continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property in the city, as well as a limited pledge not to exceed $1,000 of the surplus net revenues of the city's waterworks system. Texas statutes provide for a maximum ad valorem tax rate of $2.50 per $100 of taxable assessed valuation (AV) for all purposes, including a maximum of $1.50 of the $2.50 for all ad valorem tax obligation debt service. For fiscal 2018, Lubbock's total tax rate was well below the state's maximum at 53.8 cents per $100 of taxable AV, including 12.66 cents for debt service. Despite the tax rate limitation, we rate the city's limited-tax debt on par with our view of the city's general creditworthiness.

The proceeds of the series 2018A certificates will fund various citywide capital projects including street improvements, a secondary data center, and the design and engineering of a new police headquarters facility. The series 2018B certificates will fund the construction of a rental car service and parking facility for the city's airport.

The rating reflects our opinion of Lubbock's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 101.6% of total governmental fund expenditures and 5.0x governmental debt service, and access to external liquidity we consider exceptional;

- Weak debt and contingent liability profile, with debt service carrying charges at 20.4% of expenditures and net direct debt that is 179.9% of total governmental fund revenue, but rapid amortization, with 71.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Lubbock's economy strong. The city, with an estimated population of 254,565, is located in Lubbock County in the Lubbock MSA, which we consider to be broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 93.5% of the national level and per capita market value of $66,944. Overall, the city's market value grew by 6.0% over the past year to $17.0 billion in 2018. The county unemployment rate was 3.4% in 2016.

The city is located in west Texas, and the nearest major cities are Amarillo (about 119 miles north) and Midland (about 118 miles south). Lubbock is the county seat and serves as the regional economic, education, and health care center for a 26-county region that is home to more than a half million people. The local economy is diverse, although it remains anchored by the agriculture, education, and health care sectors. Lubbock is home to three universities and one community college, the largest of which is Texas Tech University, which we believe provides a stabilizing presence for the local economy. Total student enrollment for Texas Tech was approximately 37,000 as of fall 2017. In addition, Texas Tech is the Lubbock's largest employer with about 9,000 employees including the Health Sciences Center.

Lubbock's tax base continues to experience healthy growth spurred by residential and commercial development. Taxable AV increased by an average of 4.74% per year since fiscal 2013. In aggregate, the tax base expanded by $3.5 billion or 26% between fiscal years 2013 and 2018. The tax base is very diverse, with the top 10 taxpayers comprising 3.29% of AV. In addition, strong retail development trends including steady building permit activity provide additional support to the city's second-largest revenue source, sales taxes. Sales tax collections have averaged 3% growth in the past five years. Given the outlook for continued residential and commercial development, we expect our view of the city's economy to remain strong over the next two years.

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.

Management prepares the annual budget using conservative revenue and expenditure assumptions based on both trend analysis and economic modeling and input from external expert consultants. Regular monitoring and reporting of the city's budgetary performance and investment portfolio are provided to the city council and the city's ad hoc audit committee. Lubbock maintains reserve policies that establish high performance standards, including maintaining at least 20% of operating revenues in the unreserved general fund balance. It prepares long-term financial forecasts for its operating fund as well as its enterprise funds. The comprehensive long-term capital planning identifies funding sources for projects and equipment outlays. The debt policy is included in the annual budget document; the policy includes guidance on the appropriate funding source for different project types as well as targets for the average life and maximum maturity of debt, but does not address key issues such as maximum debt levels or minimum savings for refundings. While the policy does not address the appropriate balance of variable- and fixed-rate debt, historically the city has not issued variable-rate debt.

Strong budgetary performance

Lubbock's budgetary performance is strong in our opinion. The city had a slight deficit operating result in the general fund of 0.6% of expenditures, but a surplus result across all governmental funds of 3.3% in fiscal 2017.

Historically, Lubbock has maintained strong budgetary performance resulting from a combination of conservative budgeting and strong revenue growth. The budget is monitored regularly throughout the year, and final results are often better than budgeted. The city indicated that it intends to increase the amount of projects that are cash funded as part of its capital improvement plan. As a result, management anticipates utilizing excess fund balance in fiscal years 2018 and 2019 until revenue growth allows the city to return to balanced operations. Given the city's strong historical performance and likelihood that we would account for some of these large one-time projects, we expect our opinion of Lubbock's budgetary performance to remain strong to adequate over the next two years.

Despite budgeting to utilize fund balance in fiscal 2017, the city ended the year with relatively balanced results. Our assessment accounts for the fact that we adjusted the city's revenues and expenditures to treat recurring transfers as either revenues or expenditures, and subtracted significant one-time expenditures funded through cash on-hand or debt proceeds. Lubbock actually reported a net increase in fund balance of approximately $4 million for fiscal 2017. Primary sources of general fund revenues are sales taxes (38%), property taxes (33%), and interfund transfers from the utility funds (18%). Property taxes, which are largely determined by changes in AV and tax rates, were $55.5 million in fiscal 2017, representing an increase of 9% since fiscal 2015. Sales tax revenues, indicative of increasing commercial or retail activity, rose 3% since fiscal 2015 to $64.5 million.

The budget for fiscal 2018 projects a $7.2 million use of fund balance for capital needs. Based on historical performance and year-to-date actuals, we believe that excess revenues may offset some of that planned drawdown, and therefore it's likely the city's general fund and total governmental funds will continue to produce at least balanced operations. The city is in the preliminary stages of formulating its 2019 budget.

Very strong budgetary flexibility

Lubbock's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 22% of operating expenditures, or $37.5 million.

Starting in fiscal 2018, the city moved its solid waste operations into the general fund. As a result, it reported a consolidated general fund balance of $48.6 million or $16.8 million in excess of policy for fiscal 2017. Although the budget calls for the use of about $7.2 million of available reserves in fiscal 2018, we do not believe budgetary flexibility will weaken should the city realize that planned spend-down. The net utilization of assets to cash fund projects built into the city's budget is due to current reserve levels being higher than what the city aims to maintain. Lubbock has historically maintained reserves in excess of 15% of its operating expenditures, and therefore we project its budgetary flexibility will remain very strong over the next two years despite a planned reduction.

The property tax rate for fiscal 2018 is $0.53802 per $100 of AV. The fiscal 2018 tax rate was unchanged from the previous two years. The current tax rate distribution is $0.38825 for the general fund, $0.12662 for debt service, and $0.02315 for economic development.

Very strong liquidity

In our opinion, Lubbock's liquidity is very strong, with total government available cash at 101.6% of total governmental fund expenditures and 5.0x governmental debt service in 2017. In our view, the city has exceptional access to external liquidity if necessary.

The city has historically maintained what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its liquidity position will worsen. In fiscal 2017, cash and investments comprised 66% of general fund assets and 87% of total governmental fund assets. All of the city's investments comply with Texas statutes and its internal investment policy. At year-end fiscal 2017, the majority of investments were in state investment pools, none of which we consider aggressive. The city's exceptional access to external liquidity is demonstrated through its access to the market over the past 15 years. Lubbock frequently issues GO and revenue-backed bonds, and also has engaged in tax increment financing. It has five privately placed debt issues outstanding (8% of total direct debt). However, the debt does not contain any provisions, such as acceleration, that we view as a potential liquidity risk.

Weak debt and contingent liability profile

In our view, Lubbock's debt and contingent liability profile is weak. Total governmental fund debt service is 20.4% of total governmental fund expenditures, and net direct debt is 179.9% of total governmental fund revenue. Approximately 71.6% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city does not have any swaps or variable-rate debt. Total direct debt includes $1.1 billion of tax-backed debt, $15.6 million of capital leases, and $148 million of utility-revenue secured debt. In our calculations, we adjusted for the portion of tax-backed debt supported by utility funds. Debt amortization is rapid with 71.6% of principal scheduled to retire within the next 10 years. The city will continue to issue debt annually in conjunction with its capital improvement plan. Over the next two years, the five-year capital improvement plan calls for the issuance of about $75.4 million in new debt for Lubbock's governmental funds. We do not expect our opinion of the city's debt profile to weaken in the near term unless the amount of debt amortized over the next 10 years falls below 65%.

Lubbock's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 12.9% of total governmental fund expenditures in 2017. Of that amount, 10.5% represented required contributions to pension obligations, and 2.4% represented OPEB payments. The city made its full annual required pension contribution in 2017.

Lubbock participates in the Texas Municipal Retirement System, an agent multiemployer public employee retirement system. It is required to contribute at an actuarially determined rate, and has historically contributed 100% of the annual required cost. The city's net pension liability measured $126 million as of Dec. 31, 2016. The plan maintained a funded level of 81.49%, using the plan's fiduciary net position as a percentage of the total pension liability.

The city also administers the Lubbock Fire Pension Fund, which is a single-employer defined benefit pension plan. Contribution rates are set as a percentage of pay by each firefighter and as a percentage of payroll by the city. Lubbock fully funded the actuarially determined contribution in each of the last three years. Its net pension liability measured $176 million as of Dec. 31, 2016. The plan maintained a funded level of 65.67%, using the plan's fiduciary net position as a percentage of the total pension liability.

Lubbock also offers continuing health and dental care benefits to retirees through a single-employer defined benefit OPEB plan. These benefits are funded on a pay-as-you-go basis and in fiscal 2017, payments for OPEB were 2.4% of expenditures. As of the most recent actuarial valuation (Oct. 1, 2015), the city's OPEB unfunded actuarial accrued liability was $120.9 million.

We also note that while annual combined pension and OPEB costs are high relative to total governmental expenditures, approximately one-third of the city's annual contribution to TMRS is attributable to covered employees in the city's enterprise funds, which is offset by recurring transfers into the general fund. As a result, we believe the 10.5% pension costs-to-total governmental expenditures ratio is somewhat skewed, and estimate that governmental pension costs are closer to about 8% of adjusted governmental expenditures. At this time, we believe pension costs are manageable given the size of the city's budget and the plan's funding ratio, which has not significantly weakened over the past three years. If pension costs grow such that we believe the budget may be affected, or investment returns weaken the TMRS funding ratio, we could view these high pension obligations as a credit negative, and our view of the city's debt and liability profile could weaken.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our expectation that the city will maintain very strong budgetary flexibility and liquidity supported by very strong management practices. In addition, the outlook reflects our opinion that Lubbock will continue to remain what we consider to be a broad and diverse MSA, and that it will continue to experience steady growth. We do not expect to change the rating over the two-year outlook horizon.

Upside scenario

A higher rating would likely follow a significant improvement in the city's debt profile and an expansion of the economic base, all else being equal, which enables Lubbock's wealth and income levels to be comparable with those of rated higher peers.

Downside scenario

We would likely lower the rating if available reserves fall below the city's formal adopted policy, triggered by a weakening in budgetary performance.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 21, 2018)		
Lubbock tax and wtrwks sys surplus rev certs of oblig		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO bnds ser 2007 dtd 08/15/2007 due 02/15/2027		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Lubbock GO bnds ser 2008 dtd 04/15/2008 due 02/15/2009-2018 2028		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Lubbock GO bnds ser 2011 dtd 03/15/2011 due 02/15/2012-2031		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO bnds, taxable (Build America Bonds) ser 2010B dtd 02/04/2010 due 02/15/2018-2024 2030		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO rfdg and imp bnds ser 2013 dtd 04/15/2013 due 08/15/2013 & 02/15/2014-2033		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO rfdg bnds ser 2011 dtd 03/15/2011 due 02/15/2012-2022		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO rfdg bnds ser 2016A dtd 11/01/2016 due 02/15/2017-2034		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO rfdg bnds ser 2016 dtd 04/15/2016 due 08/15/2016 & 02/15/2020-2034		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO rfdg bnds (Taxable) ser 2013 dtd 04/15/2013 due 08/15/2013 & 02/15/2014-2021		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO rfdg & imp bnds ser 2009 dtd 03/01/2009 due 02/15/2029		
Long Term Rating	AA+/Stable	Affirmed
Lubbock		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.