



City of Winnsboro

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The Winnsboro City Council is pleased to announce that S&P Global Ratings raised its rating on the City of Winnsboro, Texas' series 2011 general obligation (GO) refunding bonds to 'A+' from 'A', and the outlook is stable. This is great news for our city and its taxpayers. The improved rating means the city is viewed by investors to be a better credit risk and in the event the city might need to issue future debt it could receive a better interest rate saving taxpayers money. In practical terms this is like a large positive jump in our credit score from good to excellent. The report attributes the improved score to solid financial management and higher fund balances and conservative financial management practices by our City Council.

RatingsDirect®

Summary:

Winnsboro, Texas; General Obligation

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Winnsboro, Texas; General Obligation

Credit Profile

Winnsboro GO rfdg bnds

Long Term Rating

A+/Stable

Upgraded

Rationale

S&P Global Ratings raised its rating on the City of Winnsboro, Texas' series 2011 general obligation (GO) refunding bonds to 'A+' from 'A'. The outlook is stable.

The upgrade reflects the city's improved general fund reserves over the past five fiscal years to levels that we no longer consider nominally thin.

The GO bonds constitute direct obligations of the city payable from the levy and collection of a continuing direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within Winnsboro. 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, Winnsboro's total tax rate was well below the state's maximum at 56.4 cents per \$100 of taxable AV, including 9.1 cents for debt service. While the tax is technically limited, we believe the likelihood of payment is strongly linked to an obligor's general creditworthiness.

The rating reflects our opinion of the following factors for the city:

- Weak economy, with market value per capita of \$53,376 and projected per capita effective buying income at 99.1% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 36% of operating expenditures;
- Very strong liquidity, with total government available cash at 73.3% of total governmental fund expenditures and 12.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 5.8% of expenditures and net direct debt that is 56.4% of total governmental fund revenue, as well as rapid amortization, with 65.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Weak economy

We consider Winnsboro's economy weak. The city, with an estimated population of 3,434, is located in Franklin and Wood counties. The city has a projected per capita effective buying income of 99.1% of the national level and per capita market value of \$53,376. Overall, the city's market value grew by 4.8% over the past year to \$183.3 million in 2018. The weighted-average unemployment rate of the counties was 5.2% in 2016.

Winnsboro is located in northeastern Texas about 75 miles from Tyler and 88 miles from Dallas. The city's economy is primarily agriculture-based, but also consists of petroleum production and service industries. After a slight decline in assessed value (AV) from fiscal years 2011 to 2012, the city's AV has grown 12.1% to \$183.3 million for fiscal 2018. The city's tax base is moderately diverse, with the top 10 taxpayers accounting for 24.4% of AV.

Adequate management

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

Highlights of the city's policies and practices include monitoring of budget-to-actual performance, with formal reports to council on a monthly basis; an investment policy with quarterly investment reports; and a 25% reserve policy established in fiscal 2012, with reserves consistently trending upward to a level that is now above the policy level. However, limitations in the city's policies include the lack of formal financial and capital planning and the lack of debt management policies.

Strong budgetary performance

Winnsboro's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 3.8% of expenditures, and slight surplus results across all governmental funds of 1.2% in fiscal 2016. General fund operating results of the city have been stable over the last three years, with a result of 5.3% in 2015 and a result of 3.9% in 2014.

Our operating result calculations account for recurring transfers into the general fund from the enterprise fund, which were added to general fund revenues as well as total governmental fund revenues. Winnsboro ended fiscal 2016 with its third consecutive surplus due primarily to conservative budgeting as well as a concerted effort to maintain reserves above 25% of operating expenses. We understand that, based on unaudited fiscal 2017 results, the city generated another operating surplus of about \$64,000 due to slightly better-than-expected revenues as well as expenditure savings. As a result, we understand the city maintained both strong budgetary performance and general fund reserves above 30% of operating expenses.

Management indicates that fiscal 2018 is balanced at \$2.8 million without the use of reserves and that, for the first six months of the fiscal year, both revenues and expenses in the general fund are right on track. As a result, we understand that management expects to end the year with close to breakeven operations. Local revenues consisting primarily of property taxes, and sales and use taxes, and fees and charges account for about 78% of general fund revenue.

Very strong budgetary flexibility

Winnsboro's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 36% of operating expenditures, or \$1.1 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.

Management indicates that it expects to maintain general fund reserves above 30% of expenditures in both fiscal years 2017 and 2018. As such, we expect budgetary flexibility to remain very strong both on a nominal and percent basis.

Very strong liquidity

In our opinion, Winnsboro's liquidity is very strong, with total government available cash at 73.3% of total governmental fund expenditures and 12.6x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

We do not believe the county maintains any investments that we deem aggressive. We understand that liquidity is expected to remain at least as strong as current levels both according to unaudited fiscal 2017 results as well as fiscal 2018 expectations.

Winnsboro maintains two series of certificates of obligations outstanding through the state's Water Development Board totaling about \$1.5 million. We do not view this as a material contingent liability risk to the city.

Very strong debt and contingent liability profile

In our view, Winnsboro's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.8% of total governmental fund expenditures, and net direct debt is 56.4% of total governmental fund revenue. Approximately 65.1% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Management indicates that there are no specific plans to issue additional debt within the next two years and that capital projects are limited primarily to pay-as-you-go maintenance projects.

Winnsboro's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.8% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

The city participates in one of the plans in the Texas Municipal Retirement System (TMRS). Winnsboro contributed \$147,000 to the pension system in fiscal 2016, which equaled the actuarially determined contribution for the year. As of the most recent actuarial valuation, the pension plan was 82% funded. The city's net pension liability stood at \$896,096 assuming a 6.75% discount rate.

The city also provides other postemployment benefits (OPEB) through a group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund. In fiscal 2016, the city contributed \$3,687. We understand that management does not expect its pension or OPEB expenses to materially increase in the near term.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our opinion that Winnsboro will continue to maintain its very strong budgetary flexibility as it maintains reserves in accordance with its formal reserve target level. The outlook also reflects our view that the city

will continue to benefit from its very strong liquidity position and debt profile. As a result, we do not expect to change the outlook over the two-year time horizon.

Upside scenario

We could raise the rating if the city's economic metrics were to materially improve and if Winnsboro formalized additional financial policies and practices.

Downside scenario

We could lower the rating if the city's budgetary performance significantly weakened, or if its reserve levels or the debt profile significantly deteriorated.

Related Research

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

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