

RatingsDirect®

Summary:

Canyon, Texas; General Obligation

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Credit Profile

US\$5.81 mil GO bnds ser 2016 dtd 06/15/2016 due 02/15/2036

Long Term Rating AA-/Stable New

Canyon GO

Long Term Rating AA-/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Canyon, Texas' series 2016 general obligation (GO) bonds and affirmed its 'AA-' rating, with a stable outlook, on the city's existing GO debt.

The series 2016 bonds are a GO of the city, secured by Canyon's ad valorem-tax pledge, within the limits prescribed by law. The maximum allowable rate in Texas is \$2.50 per \$100 of assessed value (AV) for all purposes with the portion dedicated to debt service limited to \$1.50. The city's 39-cent levy is well below the maximum. Despite limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the city's flexibility under the levy limit. We understand officials will use series 2016 bond proceeds to finance the construction of a new city swimming pool facility.

The series 2012 combination tax and revenue certificates are payable from a combination of an ad valorem tax levied annually, within the limits prescribed by law, against all taxable property within the city and a pledge of surplus revenue from the city's water and wastewater system; however, we rate the bonds based on the city's ad valorem pledge.

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

- Adequate economy, with market value per capita of \$44,883 and projected per capita effective buying income at 91.8% of the national level, but that is benefitting from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 53.2% of total governmental fund expenditures and 126.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at less than 1% of expenditures and net direct debt that is 70.5% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Canyon's economy adequate. The city, with an estimated population of 14,054, is in Randall County in the Amarillo MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 91.8% of the national level and per capita market value of \$44,883. Overall, the city's market value grew by 6.1% over the past year to \$630.8 million in 2016. The county unemployment rate was 2.9% in 2015.

Canyon is in the Texas Panhandle, about 16 miles south of Amarillo. The economy centers on education, agriculture, and tourism at Palo Duro Canyon State Park. West Texas A&M University, with a student enrollment of roughly 9,500, is in the city, where it acts as a stabilizing presence. While Canyon's economy lacks significant depth and diversity beyond the university, residents can commute into Amarillo's broader economy for employment. Additionally, the building of a new dairy plant, the first of this type of industry in the area, should add 40-60 jobs, bringing more residents into the city.

The local property tax base continues to see growth in the range of 3%-6% per year. Taxable AV increased to \$630 million in fiscal 2016 from \$573 million in fiscal 2014. Citywide sales tax collections continue to experience annual growth; with planned residential developments currently underway, officials expect this trend to continue, if not pick up pace during the coming years.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include management's:

- Revenue and expenditure assumptions based, in part, on five years of historical data, coupled with using outside sources for economic data and forecasting;
- Monthly budget reports to the city council, including budget-to-actual performance comparisons and information regarding investment holdings and earnings at least once each quarter;
- Five-year capital improvement plan (CIP) that it updates annually during the budget process--The CIP identifies projects, costs, and funding sources;
- Formal investment policy that mirrors state guidelines closely with holdings and performance reports to the council quarterly; and
- Fund balance policy for combined governmental and enterprise funds of three months' expenditures, with a general fund target of maintaining near current levels or roughly 15% of general fund expenditures.

The city does not currently have a formal long-term financial plan or debt management policy.

Strong budgetary performance

Canyon's budgetary performance is strong in our opinion. The city had operating surpluses of 1.8% of expenditures in the general fund and 2.2% of expenditures across all governmental funds in fiscal 2015.

We adjusted general fund and total governmental fund expenditures to account for capital expenditures during fiscal 2015 that were one-time in nature. Financial performance has remained positive recently, following increased sales tax and property tax revenue and tight monitoring of expenses. Due to this, we expect budgetary performance to remain,

at least, adequate for the next two fiscal years.

For fiscal 2016, the city budgeted for a use of reserves, which is typical; it expects a general fund surplus of roughly \$500,000-\$800,000 based on revenue and expenditures to date. Officials report that sales tax revenue continues to increase annually and that sales tax revenue has already exceeded the total budgeted amount for fiscal 2016 by 10%.

Property taxes generate 32% of general fund revenue while charges for services account for 30% and sales taxes generate 28%. We expect budgetary performance to remain strong. The city expects to continue to benefit from increased residential development as people move down from Amarillo in search of developable land and better local amenities.

Very strong budgetary flexibility

Canyon's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 19% of operating expenditures, or \$1.6 million.

We believe budgetary flexibility will likely remain very strong for the next two fiscal years following a planned use of reserves for capital during fiscal 2015. For fiscal 2016, the city is projecting it will add to available fund balance in an amount roughly between \$500,000 and \$800,000, which would increase reserves to roughly 21%-25% of expenditures. It does not currently plan for any significant spending in fiscal 2017.

Very strong liquidity

In our opinion, Canyon's liquidity is very strong, with total government available cash at 53.2% of total governmental fund expenditures and 126.3x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Canyon has demonstrated strong access to external liquidity through its participation in the market within the past 20 years and issuance of mainly tax-backed bonds. It has historically had, what we consider, very strong cash balances; we do not believe its cash position will worsen over the next two fiscal years.

Currently, all of its investments comply with state guidelines and we do not consider them aggressive. At Sept. 30, 2015, the city's investments were primarily in certificates of deposit. Canyon does not currently have any directly placed debt outstanding.

Adequate debt and contingent liability profile

In our view, Canyon's debt and contingent liability profile is adequate. Total governmental fund debt service is less than 1% of total governmental fund expenditures, and net direct debt is 70.5% of total governmental fund revenue.

Following this issuance, the city does not currently have any concrete additional debt plans.

Canyon's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 9.3% of total governmental fund expenditures in fiscal 2014. Of that amount, 8.2% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2014.

Canyon provides pension benefits to its eligible employees through the state-administered Texas Municipal Retirement

System. Contributions are actuarially determined annually; Canyon has made the annual required contribution over the past several fiscal years.

Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the city's net pension liability was \$3.3 million as of Dec. 31, 2014. The plan was 87% funded based on its net position as a percent of the total pension liability. (For additional details on GASB Nos. 67 and 68, please see our report, titled "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect.)

The city provides health care benefits for retired employees through an agent multiple-employer plan administered by the Texas Municipal League Intergovernmental Employee Benefits Pool; these costs, however, are minimal compared to overall expenditures and covered on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that within the two-year outlook period, management will likely remain committed to maintaining its very strong budgetary flexibility and strong budgetary performance. Due to this, we do not expect to change the rating during the outlook's two-year period.

Upside scenario

Economic expansion and diversification, coupled with continued strong budgetary performance, leading to general fund balance increases, assuming all other rating factors remain stable or improve, could lead us to raise the rating.

Downside scenario

A significant deterioration of budgetary performance or flexibility could lead us to lower the rating, particularly if reserves were to fall below \$500,000, a level we consider nominally low.

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: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 8, 2016)		
Canyon GO rfdg bnds ser 2013 dtd 02/15/2013 due 02/15/2014-2025 2027		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Canyon GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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