

CREDIT OPINION

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Update

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Van Alstyne (City of) TX

Rating Update - Moody's Affirms A2 on Van Alstyne's, TX GOLT Debt

Summary Rating Rationale

Moody's Investors Service has affirmed the A2 on the City of Van Alstyne's, TX general obligation limited tax (GOLT) bonds, affecting \$2.29 million in Moody's rated debt. The city has an additional \$1.0 million in outstanding debt not rated by Moody's but considered in our analysis.

The affirmation of the A2 rating reflects the city's small but generally growing tax base and healthy reserve levels. The rating also incorporates the city's moderate debt burden with rapid principal payout and low pension burden.

The A2 GOLT rating is rated the same as the Moody's internal assessment of the issuer's hypothetical GOULT, reflecting the city's limited ability to raise property tax rates and lack of full faith and credit pledge offset by ample available taxing headroom to generate dedicated property taxes sufficient to pay debt service.

Credit Strengths

- » Healthy operating reserves
- » Steady economic growth benefitting the tax base

Credit Challenges

- » Ambulance services creating General Fund expenditure pressure
- » Moderate tax base concentration
- » Below average wealth indices

Rating Outlook

Moody's generally does not assign outlooks to local governments with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Significant growth in assessed valuation
- » Trend of operating surpluses substantially bolstering financial reserves

Factors that Could Lead to a Downgrade

- » Contraction of assessed valuation
- » Deterioration of reserve levels

Key Indicators

Exhibit 1

| Van Alstyne (City of) TX | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|------------|------------|------------|------------|------------|
| Economy/Tax Base | | | | | |
| Total Full Value (\$000) | \$ 158,315 | \$ 159,910 | \$ 154,457 | \$ 198,225 | \$ 218,785 |
| Full Value Per Capita | \$ 52,807 | \$ 52,845 | \$ 50,692 | \$ 63,923 | \$ 65,426 |
| Median Family Income (% of US Median) | 108.5% | 99.7% | 97.5% | 85.8% | 85.8% |
| Finances | | | | | |
| Operating Revenue (\$000) | \$ 4,008 | \$ 3,621 | \$ 3,457 | \$ 3,658 | \$ 3,757 |
| Fund Balance as a % of Revenues | 20.6% | 23.5% | 26.2% | 28.8% | 31.9% |
| Cash Balance as a % of Revenues | 25.1% | 28.0% | 28.6% | 50.0% | 32.9% |
| Debt/Pensions | | | | | |
| Net Direct Debt (\$000) | \$ 3,444 | \$ 3,040 | \$ 2,739 | \$ 3,135 | \$ 2,773 |
| Net Direct Debt / Operating Revenues (x) | 0.9x | 0.8x | 0.8x | 0.9x | 0.7x |
| Net Direct Debt / Full Value (%) | 2.2% | 1.9% | 1.8% | 1.6% | 1.3% |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x) | N/A | N/A | N/A | 0.4x | 0.6x |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | N/A | N/A | N/A | 0.8% | 1.0% |

Source: Annual Financial Statements; Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Modest, Growing City; Below Average Wealth Indices

Van Alstyne's tax base will remain moderately sized with continued growth from ongoing development despite the loss of major taxpayer. The city is located in Grayson (Aa2) and Collin (Aaa) Counties in north central Texas with an estimated population of 3,344 in 2015. Since a significant jump (28.3%) in fiscal 2014, the city's tax base has experienced strong annual assessed valuation growth reaching \$244 million as of fiscal 2017. The top ten taxpayers comprising 21.3% of fiscal 2017 assessed valuation. Though moderately concentrated, the tax base has diversified in recent years with top taxpayers representing The city's top taxpayer Caterpillar Inc. (A3/Stable) has a distribution warehouse in the city which comprises 14.0% of fiscal 2017 assessed valuation. Caterpillar left the city in December 2016. Despite the loss of their largest taxpayer, management reports that the city continues to see commercial and residential growth, including the development of more than 100 single family homes, a Senior Living facility and the entry of 22 new businesses into the area. The city's continued development and diversification in recent years will likely continue to support growth in the modest base.

At 3.4% as of November 2016, the city's unemployment rate is below state and national medians (4.2% and 4.4%, respectively) for the same period. Per the 2014 American Community Survey, wealth indices are below average with median family income at 85.8% of the national median.

Financial Operations and Reserves: Healthy Operating Reserves

The city's financial position will likely remain favorable and in line with peers in the rating category given the strong revenue growth and relatively stable expenditures. In Fiscal 2015, the General Fund experienced an operating deficit of \$323,000, although the available General Fund balance increased to \$702,000 or 20.4% of revenues. Excluding capital leases proceeds, fiscal 2015 represents the fifth year of deficits largely driven by capital outlay. Without the capital outlay expenditures (including the purchase of emergency

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service vehicles), the city would have consistently achieved general fund surpluses. The city's strong debt service fund bolsters operating fund reserve levels. The city's available operating fund balance has increased steadily from \$802,000 in fiscal 2011 (24% of revenues) to \$1.2 million in fiscal 2015, a healthy 31.9% of operating revenues. The city expects fiscal 2016 operating fund balance to end at approximately \$937,000. The city's fiscal 2017 budget projects exact balance in the general fund and a slight surplus of \$39,000 in the debt service fund.

The city provides ambulance services in contract with local hospitals, and direct revenues no longer cover the related expenditures. The city's revenues for ambulance services have dropped from \$1.18 M in fiscal 2010 to \$545,000 in fiscal 2015 due to increased emergency call volume as opposed to non-emergency transports which have a higher pay percentage, while expenditures related to ambulance services have only slightly dropped from \$920,000 in fiscal 2010 to \$845,000 in fiscal 2015. Positively, other General Fund revenues have remained stable or improved to accommodate ambulance expenditures and capital outlay. In fiscal 2015 the city's operating revenue streams were approximately 35% property taxes, 20% court fees, 19% sales taxes, and 15% ambulance revenues. The city's property tax and court fee revenues have remained relatively stable over time, with property taxes growing steadily. Sales taxes have also grown steadily since 2010. Sales taxes collections increased over 10% in fiscal 2016 and are up 15% year to date in fiscal 2017.

LIQUIDITY

The county's cash position has weakened with the recent use of reserves for capital. In fiscal 2015, unrestricted cash and investments in the operating funds decreased to \$1.2 million, or a still healthy 32.9% of operating revenues. The city is projecting fiscal 2016 cash position to be approximately \$1.5M.

Debt and Pensions: Manageable Debt Profile with Rapid Amortization; Low Pension Liability

The city's average debt burden is expected to remain manageable given no future borrowing plans and rapid amortization. The city has \$4.1 million in outstanding debt as of fiscal 2015, including \$3.3 million general obligation limited tax (GOLT) debt and modest amounts of capital leases. Net of the \$1.3 million in GOLT debt supported by the city's utility, the city's net direct debt burden of 1.3% of full value is low compared to the state median and average compared to the national median. In fiscal 2015, debt service paid from operating funds comprised a manageable 11.1% of operating fund expenditures. Officials report no significant debt issuance plans.

DEBT STRUCTURE

All of the city's debt is fixed rate and matures over the long term (final maturity fiscal 2020). Principal amortization is above average with 100% of principal satisfied over 10 years.

DEBT-RELATED DERIVATIVES

The city is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The city participates in the Texas Municipal Retirement System (TMRS), an agent, multi-employer, public, employee retirement system which is a nontraditional, joint-contributory defined benefit plan. Total city pension contributions in fiscal 2015 amounted to \$137 thousand, representing 0.92% of operating revenues. Moody's three year average adjusted net pension liability (ANPL) for the city (2013 – 2015), under our current methodology for adjust reported pension data, is \$2.2 million, or 0.6 times fiscal 2015 revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported contribution information, but to improve comparability with other rated entities. We determined Van Alstyne's share of the liability for the cost-sharing plan administered under TMRS in proportion to its contributions to the plan.

Management and Governance

The City of Van Alstyne operates under a city manager form of government. The city council is comprised of five aldermen and the mayor. The city's general government functions include fire protection, ambulance services, general administrative services, police protection, municipal court, streets and infrastructure, parks, emergency communications, and library services.

Texas cities have an institutional framework score of "Aa," or strong. Cities rely on stable property taxes for 30% -40% of their operating revenues, while 25%-35% comes from economically sensitive sales taxes, resulting in moderate predictability overall. Cities maintain moderate flexibility under the state-mandated cap (\$25 per \$1,000 of AV, with no more than \$15 for debt) to raise property

taxes as most cities are well below the cap. Expenditures primarily consist of personnel costs, which are highly predictable. Cities have high flexibility to reduce expenditures given no union presence.

Legal Security

The bonds are secured and payable from the levy and collection of a direct and continuing ad valorem tax, within the limited prescribed by law, on all taxable property located within the City. The city is limited to a tax rate of \$15.00 per \$1,000 of assessed value. The total tax rate levied for fiscal year 2017 was \$6.13, with \$1.38 allocated to debt service, leaving ample headroom.

Use of Proceeds

N/A

Obligor Profile

Van Alstyne is a growing city about 40 minutes north of Dallas, located between McKinney and Sherman. The City's 2015 population is estimated at 3,344.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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