

# RatingsDirect®

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## Summary:

# Mesquite, Texas; General Obligation

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## Summary:

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### Credit Profile

US\$39.965 mil GO rfdg and imp bnds ser 2016 dtd 03/15/2016 due 02/15/2036		
<i>Long Term Rating</i>	AA/Stable	New
US\$12.145 mil comb tax and ltd surplus rev certs of oblig ser 2016 dtd 03/15/2016 due 02/15/2036		
<i>Long Term Rating</i>	AA/Stable	New
Mesquite GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Mesquite, Texas' series 2016 general obligation (GO) refunding and improvement bonds and series 2016 combination tax and limited-surplus revenue certificates of obligation and affirmed its 'AA' rating, with a stable outlook, on the city's existing GO debt.

The series 2016 GO refunding and improvement bonds are payable from an ad valorem tax, levied within the limits prescribed by law, on all taxable property in the city. The series 2016 certificates are payable from the same limited-ad valorem-tax levy and net surplus water and sewer revenue, not to exceed \$10,000. The city's current ad valorem tax rate is 64 cents per \$100 of assessed value (AV), well below the maximum allowable tax rate of \$2.50 per \$100 of AV. The certificates lack the necessary bond provisions to determine a rating under our utility criteria. Therefore, we rate both obligations under our GO criteria due to the city's strength of reserves and tax rate flexibility.

We understand officials intend to use series 2016 certificate proceeds to fund various citywide capital improvement projects. We also understand officials plan to use 2016 GO refunding and improvement bond proceeds to finance street improvement projects and refund a portion of the city's debt for debt service savings.

The rating reflects our opinion of the city's:

- Weak economy, with projected per capita effective buying income at 81.1% of expenditures and market value per capita of \$41,922, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 48.1% of total governmental fund expenditures and 5.4x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 8.9% of expenditures and net direct debt that is 124.8% of total governmental fund revenue; and

- Strong institutional framework score.

### **Weak economy**

We consider Mesquite's economy weak. The city, with an estimated population of 142,230, is in Dallas and Kaufman counties in the Dallas-Fort Worth-Arlington MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 81.1% of the national level and per capita market value of \$41,922. Overall, the city's market value grew by 4% over the past year to \$6 billion in 2016. The weight-averaged unemployment of both counties was 5.4% in 2014.

Mesquite, adjacent to Dallas' eastern border, is a largely residential city with active retail, industrial, and health care industries. After a cumulative 14.5% AV decrease from fiscal years 2009-2014, the property tax base has rebounded due to an increase in existing property values following sustained industrial, commercial, and residential development. Leading industrial developments include continued growth at the city's Skyline Industrial park, construction of a Fed-Ex logistics center, and other large local employer expansions. Leading employers include United Parcel Service of America Inc., Mesquite Independent School District, Mesquite (government), Dallas Medical Regional Center, and Honeywell. In addition, the retail market provides growth in sales tax revenue with additional restaurants; grocery stores; and retail outlets locating to Mesquite, spurring economic activity. Due to ongoing development, city management is projecting 4% AV growth over the next year.

### **Very strong management**

We view the city's management as very strong, with strong financial management policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Key practices include management's:

- Conservative revenue and expenditure assumptions;
- Monthly reports on budget-to-actual financial results to the city council;
- Long-term financial plan that forecasts revenue and expenditures 10 years out;
- Five-year capital improvement plan that it updates annually;
- Formally adopted investment and debt management policies, coupled with quarterly investment reports to the city council; and
- Formal policy of maintaining, at least, 15% of expenditures in the general fund.

### **Strong budgetary performance**

Mesquite's budgetary performance is strong in our opinion. The city had balanced operating results in the general fund of negative 0.3% of expenditures, and slight surplus results across all governmental funds of 0.8% of expenditures in fiscal 2014. General fund operating results of the city have been stable over the past three fiscal years, with a result of 0.4% of expenditures in 2013 and a result of negative 0.3% of expenditures in 2014.

Surplus operations in the general fund and across all total governmental funds in two of the past three audited fiscal years support strong budgetary performance. Property taxes generated 37.7% of fiscal 2014 general fund revenue, sales taxes generated 32.2%, and service charges generated 13.9%. Management-provided fiscal 2015 unaudited actual results indicate continued operational surpluses across total governmental funds of 0.7% of expenditures but a deficit in the general fund of 0.4% of expenditures due to delayed reimbursements realized in fiscal 2016. Mesquite has

conservatively budgeted for break-even operations in fiscal 2016. Based on budgeted expectations and strong fiscal oversight from city management, we believe management will likely maintain strong budgetary performance.

### **Very strong budgetary flexibility**

Mesquite's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 17% of operating expenditures, or \$16.4 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 17% of expenditures in 2013 and 16% in 2012.

Mesquite continues to build reserves with two operational surpluses during the past three fiscal years. Management-provided unaudited actual fiscal 2015 results indicate available funds decreased to roughly \$15.94 million, or 15.6% of general fund expenditures. Based on fiscal 2016 budgeted expectations, we believe the city will likely maintain similar fund balance and very strong budgetary flexibility at more than 15% of expenditures.

### **Very strong liquidity**

In our opinion, Mesquite's liquidity is very strong, with total government available cash at 48.1% of total governmental fund expenditures and 5.4x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Mesquite has demonstrated strong access to capital markets with several GO and utility-supported debt issues over the past 20 years. Mesquite has historically had, what we consider, very strong cash balances. Since Mesquite does not currently have any significant plans to spend down current reserves, we do not believe its cash position will likely weaken materially. Currently, the city's investments comply with state statutes; therefore, we do not consider them aggressive. At fiscal year-end 2014, city investments were in the TexSTAR and TexPool investment pools and local demand deposits.

### **Weak debt and contingent liability profile**

In our view, Mesquite's debt and contingent liability profile is weak. Total governmental fund debt service is 8.9% of total governmental fund expenditures, and net direct debt is 124.8% of total governmental fund revenue.

Mesquite approached its electorate in November 2015 for a \$125 million GO bond authorization for residential street construction. The election passed by an 84% majority. The additional bonds will allow management to address 109 miles of street maintenance identified for construction. The city plans to issue roughly \$25 million every other year over the next 10 years. Assuming 2% annual tax base growth, officials are projecting a total tax increase of 9.4 cents for the interest-and-sinking portion of the tax rate. Due to these medium-term debt plans, we believe debt will likely remain weak. We, however, expect the city to issue debt once sufficient tax base growth has occurred to support it so as not to elevate the debt profile significantly.

Mesquite's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 6.9% of total governmental fund expenditures in fiscal 2015. Of that amount, 5.5% represented required contributions to pension obligations, and 1.4% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2015.

Mesquite provides pension benefits for all full-time employees through the statewide Texas Municipal Retirement System (TMRS), an agent multiemployer, public-employee retirement system. Under state law governing TMRS, an

actuary determines the contribution rate annually; the city contributes to the TMRS plan at the actuarially determined rate. Mesquite also provides employees with OPEB, including health care, which it funds through pay-as-you-go financing.

### Strong institutional framework

The institutional framework score for Texas municipalities is strong.

## Outlook

The stable outlook reflects Standard & Poor's opinion of Mesquite's very strong reserves and demonstrated ability to achieve balanced operations. In addition, the outlook reflects our opinion that Mesquite's additional debt plans will likely constrain its debt profile. Therefore, we do not expect to change the rating within the two-year outlook period.

### Upside scenario

We could raise the rating if the city were to experience economic expansion, resulting in a significant overall improvement in wealth and income.

### Downside scenario

We could lower the rating if overall finances were to deteriorate, resulting in decreased available reserves or weakened budgetary performance, or if additional bonding were to weaken the debt profile significantly.

## 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
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of March 3, 2016)		
Mesquite GO		
Long Term Rating	AA/Stable	Affirmed
Mesquite GO		
Long Term Rating	AA/Stable	Affirmed
Mesquite GO		
Long Term Rating	AA/Stable	Affirmed
<b>Mesquite GO</b>		

**Ratings Detail (As Of March 3, 2016) (cont.)**

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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