

RatingsDirect®

Summary:

Mesquite, Texas; General Obligation

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Summary:

Mesquite, Texas; General Obligation

Credit Profile

US\$11.785 mil comb tax and ltd surplus rev certs of oblig ser 2017 dtd 05/01/2017 due 02/15/2037

Long Term Rating AA/Stable New

US\$7.245 mil GO rfdg bnds ser 2017 dtd 05/01/2017 due 02/15/2029

Long Term Rating AA/Stable New

Rationale

S&P Global Ratings has assigned its 'AA' rating and stable outlook to Mesquite, Texas' series 2017 general obligation (GO) refunding bonds and series 2017 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 2017 GO refunding bonds are payable from an ad valorem tax, levied within the limits prescribed by law, on all taxable property in the city. The series 2017 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 68.7 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.

The series 2017 refunding bonds will refund certain maturities of debt outstanding, previously issued by the city, in order to achieve debt service savings. The series 2017 certificates will fund various capital improvements throughout the city.

The rating reflects our opinion of the city's:

- Weak economy, with projected per capita effective buying income at 76.6% and market value per capita of \$45,663, that is gaining advantage from access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 61.5% of total governmental fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 10.0% of expenditures and net direct debt that is 115.7% 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 142,950, is located in Dallas and Kaufman counties in the Dallas-Fort Worth-Arlington, TX MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 76.6% of the national level and per capita market value of \$45,663. Overall, the city's market value grew by 9.5% over the past year to \$6.5 billion in 2017. The weight-averaged unemployment rate of the counties was 4.3% in 2015.

Mesquite is located in eastern Dallas County and benefits from being part of the greater Dallas-Fort Worth MSA. Mesquite is a largely residential city with active retail, industrial, and health care industries. Total market value has grown in each of the last three years. The city's total tax base is predominately made up of single-family residential properties (50.6% of the total tax base) and commercial/industrial properties (26.1%), with multifamily properties making up a smaller 8%. The city is home to a large industrial park and major employers include United Parcel Service, Mesquite Independent School District, City of Mesquite, Dallas Medical Regional Center, and Pepsi Beverage Company. Several industrial and commercial sites are under development, and retail continues to expand. Officials anticipate stable tax base growth over the near term.

While tax base growth is expected to remain positive and stable, resident wealth levels have historically lagged behind state and national averages. The current population estimate for the city is 142,950.

Very strong management

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

The city uses five years of historical data as well as outside sources when developing revenue and expenditure assumptions. Conservative positions are typically used when compared with historical trends. Budget-to-actual financial results are presented to the city council monthly. Budget amendments are typically done once a year yet could take place at any time if needed. Mesquite uses a long-term financial plan that details revenues and expenditure for a 10-year period and attempts to forecast future large one-time expenditures. The plan is updated annually and includes conservative assumptions. The city maintains a five-year capital improvement plan that is updated annually and identifies funding sources for projects. The city maintains an investment policy and reviews it annually. Investment earnings and holding are presented to council quarterly. Mesquite has a formal debt management policy that is frequently reviewed and sets limitations on debt issuance. It has a formal reserve policy of maintaining a healthy 15% of expenditures in reserve, which is based on working capital needs.

Strong budgetary performance

Mesquite's budgetary performance is strong in our opinion. The city had operating surpluses of 1.5% of expenditures in the general fund and of 3.4% across all governmental funds in fiscal 2016. General fund operating results of the city have been stable over the last three years, with a result of negative 0.4% in 2015 and a result of negative 0.3% in 2014.

In fiscal 2016 the city experienced an operating surplus in the general fund and at year-end added \$1.5 million to fund balance that was mainly due to positive sales tax collections, fines and forfeitures, and charges for services over budget. Mesquite also experienced a modest operating surplus across total governmental funds after adjusting for

spent bond proceeds. General fund revenues are primarily derived from property taxes (38% of total general fund revenues), sales tax collections (32%), and charges for services (15%).

The city has been able to address many of its top policy issues and strategic goals along with approving modest increases to employee compensation in fiscal 2017 while increasing the property tax rate a modest 4.7 cents to finance the voter-approved residential street bond program. Given current trends, officials anticipate balanced operations for fiscal 2017. Based on budgeted expectations and the strong fiscal oversight from city management, we believe the city will continue to 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 2016 of 17% of operating expenditures, or \$17.1 million.

In 2016, Mesquite's reserve position improved to 16.5% of general fund expenditures, which is very strong and above the city's formal reserve policy. Based on fiscal 2017 budget and current trends, we believe the city will likely maintain a similar fund balance and very strong budgetary flexibility above 15% of expenditures.

Very strong liquidity

In our opinion, Mesquite's liquidity is very strong, with total government available cash at 61.5% of total governmental fund expenditures and 6.1x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

The city has demonstrated strong access to capital markets with several issuances of GO and utility-supported debt over the last 20 years. Historically, it has had what we consider very strong cash balances and, given that Mesquite has no significant plans to spend down its current reserves, we do not believe its cash position will materially weaken. All of the city's investments comply with state statutes and we do not consider them to be aggressive. The majority of the city's investments are in the TexStar & TexPool Investment Pool 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 10.0% of total governmental fund expenditures, and net direct debt is 115.7% of total governmental fund revenue.

In November 2015, voters authorized \$125 million in GO bonds for residential street construction. The city plans to issue roughly \$25 million every other year over the next eight years. Given these medium-term debt plans, we anticipate Mesquite's debt burden will likely remain weak over the long term. However, we expect the city will continue to issue debt once sufficient tax base growth has occurred to support it, as not to significantly elevate the debt profile. The city has no variable-rate debt nor is it party to any swap agreements.

Mesquite's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.2% of total governmental fund expenditures in 2016. Of that amount, 5.2% represented required contributions to pension obligations, and 1.9% represented OPEB payments. The city made its full annual required pension contribution in 2016.

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. The plan's fiduciary net position as of Sept. 30, 2016 was 76.5%, which compares with 82.5% in the previous year.

The city also provides employees with OPEB, including health care, which it funds through pay-as-you-go financing. Based on the most recent actuarial valuation, the unfunded actuarial accrued liability for the city's OPEB is \$41.98 million.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our view of Mesquite's very strong and stable reserves, coupled with its demonstrated ability to achieve balanced operations. The outlook also reflects our opinion that the city's additional debt plans will continue to affect the city's weak debt profile and therefore, we do not expect the rating to change in the two-year outlook period.

Upside scenario

We could raise the rating if the city were to experience significant economic expansion, resulting in a significant overall improvement in wealth and income indicators. Similarly if Mesquite's debt profile were to moderate significantly, we could raise the rating, although this is unlikely in the near term.

Downside scenario

We could lower the rating if overall finances were to deteriorate, resulting in decreased available reserves or weakened budgetary performance.

Related Research

2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of April 12, 2017)		
Mesquite GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Mesquite 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	Affirmed
Mesquite GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Mesquite GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Mesquite GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Mesquite GO		

Ratings Detail (As Of April 12, 2017) (cont.)

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

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