

## Fitch Rates Cleburne, TX Ltd Tax Bonds 'AA-'; Stable Outlook

Written by Australian Business

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AUSTIN, Texas--( [BUSINESS WIRE](#) )--Fitch Ratings has assigned an 'AA-' rating to the following Cleburne, Texas bonds:

--\$38.83 million combination tax and revenue refunding bonds, series 2013;

--\$8.365 million combination tax and revenue certificates of obligation (COs), series 2013.

The bonds are expected to sell via negotiation on Dec. 10. Proceeds will be used to refund a portion the city's currently outstanding obligations; finance improvements to the city's waterworks and sewer system, streets and roads; and pay the costs of issuance.

In addition, Fitch affirms the following ratings:

--\$20.3 million of outstanding limited tax bonds at 'AA-';

--\$15.1 million of outstanding 4B Economic Development Corporation (EDC) sales tax revenue bonds at 'A+'.

The Rating Outlook is Stable.

### SECURITY

The bonds and outstanding limited tax bonds are secured by a property tax limited to \$2.50 per \$100 of taxable value. The bonds and outstanding COs are additionally secured by a de minimis pledge of net utility system revenues, not to exceed \$1,000.

The outstanding 4B corporation sales tax revenue bonds are secured by a first lien on a 1/2-cent sales tax levied and collected city-wide for the purposes of the corporation.

### KEY RATING DRIVERS

**EXPANDING ECONOMY IN DALLAS-FORT WORTH MSA:** The city is located on the outer edge of the Dallas-Fort Worth metropolitan statistical area (MSA), providing residents with access to this broad employment market. Local population, job, and income gains have been steady, though income levels remain below state and national norms.

**CONCENTRATED TAX BASE:** Cleburne's tax base is gradually diversifying but remains concentrated. Formerly very high industry concentration in the oil and gas sector has been tempered by a pullback of local gas extraction activity.

**IMPRESSIVE FINANCIAL PERFORMANCE:** Financial management is sound, reflected in a willingness to raise revenues, adjust spending, and budget conservatively during periods of economic pressure to produce surpluses and enhance the city's fund balance position.

**MODERATE SALES TAX RELIANCE:** Sales tax revenues make up about 20% of the general fund budget. This revenue stream remains weak due in part to the declining gas extraction activity from previously very high levels.

**MANAGEABLE DEBT BURDEN:** Debt levels are moderate and outstanding tax-supported debt amortizes rapidly. There are no near-term tax supported borrowings included in the city's formal capital plan, but additional debt issuance over the near-to-medium term is plausible given the prospects for continuing population growth that would drive infrastructure investment.

**SOUND COVERAGE OF SALES TAX DEBT SERVICE:** Coverage of maximum annual

debt service on the 4B sales tax debt service has declined but remains above 2.0x, which Fitch considers sound. However, the additional bonds test allows for significant further leverage.

### RATING SENSITIVITIES

**GROWTH MANAGEMENT:** The extent to which anticipated development and population growth affects the city's debt and socio-economic profile is a key consideration when assessing the rating's potential for change.

**STRONG BUDGET PERFORMANCE:** A continuing trend of strong financial performance and maintenance of a sound fiscal cushion could lead to positive rating momentum.

### CREDIT PROFILE

Cleburne is located 30 miles south of Fort Worth within the Barnett Shale natural gas play. It is the seat of Johnson County ('AA+' / Outlook Stable). The city's estimated 2013 population is just above 29,000, reflecting 1.2% average annual growth in the last decade.

### SMALL BUT EXPANDING ECONOMY IN THE DFW MSA

Principal industries in the city include manufacturing, distribution, and agribusiness. The city's industrial base is diversified across building and construction materials, power generation, chemicals, oil and gas equipment, transportation, and distribution services.

Natural gas extraction has also been a key economic factor given the presence of the Barnett Shale play. Extraction activity ratcheted up from 2004-2008 but has since declined fairly dramatically as a result of falling natural gas prices. Drilling activity has migrated to

more profitable, liquid-rich areas within the Barnett and to other shale plays in the state, demonstrating the inherent volatility associated with this sector.

Residents benefit from the commuting distance proximity to the large DFW job market. Access is being enhanced by the construction of a major arterial highway, scheduled for completion in spring 2014, that will provide a direct link to Fort Worth. The DFW employment base is extensive and the region is outperforming the nation in post-recession job, income, and population growth.

Cleburne's unemployment rate has trended below the national average since 2007. Job growth coming out of the recession has been sound. Very strong 4% job gains for the 12-month period ending August 2013 improved the city's unemployment rate to 5.8% from 6.7%, which is below the state (6.3%) and nation (7.3%).

Wealth and educational attainment levels are below national standards, although median household and per capita income have risen faster than the state and nation since 2008. Per capita market value is competitive with medians for the 'AA' rating category at \$72,000 in fiscal 2014.

### WEAK TAV TREND, BUT LONG-TERM PROSPECTS FOR GROWTH ARE GOOD

Mild weakness in valuations across the residential, commercial, and industrial sectors, in addition to the sustained declines in mineral values, have dragged on the city's taxable assessed value (TAV). There have been small declines in the each of the past four fiscal years. Although taxpayer concentration remains moderately high at 21%, the level of concentration has declined from 32% in 2009 due to declining valuations of oil/gas firms. The top taxpayer is an electric utility and five of the top 10 are oil/gas-related firms.

Population growth has been steady and very manageable over the past decade. However, the city is situated in a growing area and the completion of transportation enhancements is expected to spur additional development and set the stage for higher velocity population and a return to TAV growth over the near-to-medium term.

## REVENUE PRESSURES HAVE BEEN WELL-MANAGED

Property taxes, charges for services, and sales taxes are the predominant revenue sources. City officials confronted the declining AV trend by raising tax rates each year since fiscal 2011. Sales tax performance, however, has remained particularly weak, declining by a compound annual average of 5% from 2008-2012 and dipping another 9.3% in fiscal 2013 (unaudited). The negative sales tax trend is divergent from the generally positive trend Fitch is seeing in other parts of the state, reflecting the pullback on area gas extraction activity from peak levels in 2008-2009.

Management prudently reduced spending to maintain budget balance during this period, chiefly through payroll savings via attrition and a salary freeze. The city also utilized a portion of non-recurring gas royalty moneys to subsidize operating costs, although this practice has ended given the rapid decline of this finite revenue source.

General fund operations concluded fiscal 2012 with a large \$2.6 million surplus after transfers (8.1% of spending). Management attributes the surplus that outperformed the balanced budget to excess service charge revenues and careful monitoring of expenditures during the year. Resultant fund balance climbed to \$12.3 million or an impressive 39% of spending, nearly all of which is unassigned under GASB 54, and days cash on hand climbed to 138. The fund balance sits comfortably above the city's formal policy that requires an unassigned fund balance at or above 90 days (25%) of expenditures; fund balance has increased significantly from the much lower balances seen before the recession.

## STRUCTURALLY BALANCED BUDGETS ADOPTED IN 2013 & 2014

The fiscal 2013 budget was balanced with reasonable revenue and spending assumptions and a general fund tax rate increase. Unaudited results suggest another \$1.7 million addition to fund balance, in part due to continued reductions in staff headcount through attrition. The fiscal 2013 fund balance is expected to rise to \$14 million or above 40% of spending.

Management increased the general fund tax rate by 5% in the fiscal 2014 budget.

Appropriations increased by 1.4% from the 2013 budget to provide a merit raises and COLAs to staff. Sales taxes are budgeted to decline by 2.6%. The budget assumes a modest \$1.4 million draw-down on fund balance to finance non-recurring capital outlays. Out-year budget forecasts through 2016 demonstrate nominal deficits and fund balance that remains above the city's formal policy floor. Fitch expects that the city's fiscal performance and position will remain a positive credit factor.

### MODERATE DEBT BURDEN THAT AMORTIZES SWIFTLY

The city's overall debt load is moderate at \$2,300 per capita and 3.2% of market value. Carrying charges for debt service have risen to a still manageable 13% of governmental expenditures in fiscal 2012. Amortization of debt repaid with tax sources is rapid; 82% of principal is retired within 10-years.

The city's five-year capital improvement plan (CIP) does not presently include any debt issuance that would be funded with tax revenues, though management is in the process of preparing a long-range infrastructure assessment that may add to the city's debt plans over the near term. To a declining extent, the city continues to fund capital items on a pay-as-you go basis with gas royalties.

### PENSION FUNDING LEVELS IMPROVING

City employees participate in one of two city-sponsored pension programs: the Texas Municipal Retirement System (TMRS), which serves the majority of city staff, or the Firemen's Relief & Retirement plan. TMRS' funding levels have improved steadily following a system-wide restructuring of actuarial assumptions and internal fund accounting, reaching a 74.4% funded level as of Jan. 1, 2012, using the system's 7% investment return rate. The city's annual contributions to TMRS remain below the actuarially-determined amounts, equaling 87% of the ARC in fiscal 2012, but the gap between actual contributions and the ARC is narrowing. The city will likely reach full ARC funding in 2015.

Fitch considers the smaller firefighter's plan funded position to be sub-standard at 59% using the system's 7.5% investment return rate and lower 55% (estimated) using Fitch's more conservative 7% investment return rate. Additionally, the plan utilizes an open

amortization period that could delay full amortization and/or increase future contribution requirements. The combined ARCs for both plans consumed a manageable 10% of government spending in fiscal 2012.

The city provides an implicit subsidy for retiree health coverage. Retirees and their dependents can purchase coverage at the group rate, and receive city-paid coverage for up to five years with 25 years of services. The city funds the costs of these benefits on a pay-go basis. The plans' fiscal 2012 unfunded liability totaled \$5.8 million or a nominal 0.3% of market value. Combined fixed-costs for debt service, pension ARC, and other post-employment benefit (OPEB) paygo consumed a slightly elevated 23.7% of fiscal 2012 governmental expenditures.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

#### U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

#### Additional Disclosure

#### Solicitation Status

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