

Fitch Rates Bastrop, TX's COs 'AA-'; Outlook Stable

Written by Australian Business

AUSTIN, Texas--([BUSINESS WIRE](#))--Fitch Ratings has assigned an 'AA-'rating to the City of Bastrop (the city), Texas' \$7 million certificates of obligation (COs).

The bonds are scheduled for a competitive sale on May 27, 2014. Proceeds will finance various utility projects.

In addition, Fitch affirms approximately \$41.2 million outstanding general obligation (GO) bonds and COs at 'AA-'.

The Rating Outlook is Stable.

SECURITY

The bonds and COs are direct obligations of the city payable from ad valorem taxes limited to \$2.50 per \$100 of taxable assessed valuation (TAV). The COs are further secured by a pledge of surplus net revenues of the city's water and sewer system.

KEY RATING DRIVERS

GROWING ECONOMY; EXPANDING BASE: Bastrop is a small city within the broad Austin area economy. Its location along the highway 71 corridor and affordable housing have contributed to expansion of the city's currently limited tax base and upcoming state-funded transportation improvements position the city for ongoing growth.

WELL-MANAGED FINANCES: Officials have managed spending to consistently maintain sound reserves and ample liquidity. Revenue sources are diverse and include sales tax revenues which demonstrated stability and consistent growth over the past 10 years, but remain susceptible to economic cyclicality.

HIGH DEBT: The city's overall debt is high with the potential for additional debt associated with regional growth needs. The burden of debt service, pension and other post-employment benefits (OPEB) on the budget is manageable.

RATING SENSITIVITIES

MANAGEABLE DEBT; SOUND FINANCES: Continuation of tax base momentum in relation to the city's debt burden and maintenance of a solid financial position could lead to positive rating action in the medium term.

CREDIT PROFILE

The city is the county seat of Bastrop County, located about 30 miles southeast of Austin with a 2013 population of about 7,500

STABLE AUSTIN-AREA ECONOMY WITH GROWTH PROSPECTS

Bastrop's location 23 miles east of Austin Bergstrom International Airport (ABIA) along the Highway 71 corridor to Houston has spurred retail and commercial development reflected in a tripling of TAV since the year 2000.

Low county unemployment of 6.1% as of March 2014 reflects a growing employment base and participation in Austin's broad job market. Top local employers include the University of Texas/MD Anderson Science Park, the Hyatt Regency Lost Pines Resort, manufacturing, education, government and utility concerns. The city's median household income is 6% higher than, and its poverty rate is half that of, the U.S.

The tax base has grown by a solid 6.6% on average over the past seven years,

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although unevenly. Fiscal 2014 TAV growth of 9.9% reflects a pick-up in residential construction and new commercial and industrial development following two years of more modest growth. The top 10 taxpayers represent retail and other commercial concerns, comprising a moderate at 14.1% of total TAV. Officials anticipate similar growth in fiscal 2015 based on the brisk pace of development underway. Several Texas Department of Transportation road improvements position Bastrop for continuing commercial growth over the next several years.

SOLID FINANCIAL MANAGEMENT

Sales tax revenues contribute 38% to the city's total revenues, followed by property tax revenues at 27%. Combined, the city's tax revenues grew at a compound annual rate of 10.7% over the past five years during which time officials maintained sound reserves in excess of their 25% policy level.

Fiscal 2013 cost savings largely contributed to a \$710,000 net surplus. Year-end unrestricted reserves of \$3.5 million, although limited in dollar value, represent a high 42.9% of expenditures and transfers out.

Officials report that fiscal 2014 performance to date is favorable to the city's balanced budget. They project a year-end unrestricted reserve approximating 30% due to the budgeted application of reserves for capital projects. The city's 25% reserve policy level is a key mitigant to the city's exposure to economically sensitive sales tax revenues.

HIGH DEBT; WELL-FUNDED PENSIONS

Fitch anticipates overall debt, currently 9% of market value, to remain elevated given remaining build-out anticipated in the region. The burden of debt service, pension and OPEB on the budget is manageable at 18.7% of governmental spending. Principal amortization is moderate at 53% in 10 years. The city indicates it may seek GO authorization in fiscal 2015, largely to address utility needs.

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Bastrop participates in the Texas Municipal Retirement System (TMRS) and fully funds its annual required contributions. The city's pension funding level is sound at 84.2% (reflecting a 7% investment rate assumption). Its other OPEB obligation is negligible in relation to market value.

Additional information is available at '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, Core-Logic /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

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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