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Summary:

Shenandoah, Texas; General Obligation

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Credit Profile

US\$9.07 mil GO rfdg bnds ser 2015 dtd 12/01/2015 due 08/15/2033

<i>Long Term Rating</i>	AA+/Stable	New
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Shenandoah GO

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

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Shenandoah, Texas' series 2015 general obligation (GO) refunding bonds. We also affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the city's existing debt. The outlook is stable.

The bonds are direct obligations of the issuer payable from a continuing and direct annual ad valorem tax levied against all taxable property in the city, within the limits prescribed by law. Although the bonds are titled "general obligation," the only security pledged for payment of the bonds is the limited ad valorem taxes. The city currently levies a tax rate of \$0.24 per \$100 of assessed value (AV), which is well-below the state cap of \$2.50 per \$100 of AV. Consequently we are rating this issue under our GO criteria. Officials plan to use bond proceeds to refinance a portion the city's existing GO debt for present value savings.

The rating reflects our opinion of the city's following factors:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 81% of operating expenditures;
- Very strong liquidity, with total government available cash of 81.6% of total governmental fund expenditures and 3.7x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges of 22.1% of expenditures and net direct debt that is 124.3% of total governmental fund revenue, but rapid amortization with 76.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Shenandoah's economy very strong. The city, with an estimated population of 2,538, is located in Montgomery County in the Houston-The Woodlands-Sugar Land, Texas MSA, which we consider to be broad and

diverse. The city has a projected per capita effective buying income of 200% of the national level and per capita market value of \$302,810. Overall, the city's market value grew by 10.7% over the past year to \$768.5 million in 2016. The county unemployment rate was 4.4% in 2014.

Shenandoah is about 30 miles north of Houston, near The Woodlands. The city was once a small residential community but has since developed a deep commercial base, primarily due to its access to Interstate 45 and the rapidly growing population of nearby cities, such as The Woodlands. Accordingly, in further support of the retail anchors in the city, four out of the top 10 taxpayers are related to commercial shopping centers. According to officials, Shenandoah's residential areas are about 95% built out, although the city's extraterritorial jurisdiction includes additional land for residential development. In addition, the city still has significant areas zoned for commercial development, which officials believe will continue to drive future AV growth.

Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

We revised our FMA score on the city to "standard" from "good" based on our view of management's indication there is no long-term capital plan developed at this time. We believe Shenandoah engages in conservative budgetary planning and capital planning, with what we consider conservative underlying assumptions such as revenue and expenditure growth, funding sources identified annually capital equipment or projects, and effects on future budgets. Management reviews the city's current-year budget and investments monthly, and reports the results to the city council in writing. While Shenandoah has not adopted a formal policy, the city maintains an informal target to maintain a general fund balance above 90 days of operating expenditures in reserves, which it currently exceeds.

Strong budgetary performance

Shenandoah's budgetary performance is strong in our opinion. The city had operating surpluses of 7.3% in the general fund and 15.8% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

The city of Shenandoah has historically maintained strong budgetary performance, indicated by surplus operations in both the general fund and total governmental funds in two of the last three audited years. In addition to additional revenues from tax base growth, the city's operations are further supported by local sales taxes. Driven by local commercial shopping centers, the city sales tax represents the majority of general fund revenues, at a level of 73.5% in 2014. In addition, sales tax revenue has increased over 16% since 2012 to a total of \$5.6 million in 2014. Based on the city's 2015 projections, we expect to see surpluses in both the general and total governmental funds. We expect similar results for 2016 based on budgeted expectations, but not as sizable as in 2014. Although projections indicate slight deterioration from 2014 performance, we understand the city's conservative budgetary practices have resulted in operations historically outperforming budgeted expectations.

Very strong budgetary flexibility

Shenandoah's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 81% of operating expenditures, or \$7.2 million. We expect the available fund balance will remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city of Shenandoah has grown available reserves to a very strong level with the support of consecutive general fund surpluses. Although city officials have not adopted a formal reserve policy, the city has an informal goal to maintain at least 90 days of operating expenditures in reserves. Due to city's available fund balance well in excess of this informal target, we expect future drawdowns for capital projects could potentially bring available reserves below 75% of expenditures. However, based on projected and budgeted results provided from management, we believe the city will maintain the fund balance above the reserve target, resulting in sustained very strong budgetary flexibility.

Very strong liquidity

In our opinion, Shenandoah's liquidity is very strong, with total government available cash of 81.6% of total governmental fund expenditures and 3.7x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

City projections indicate liquidity will remain very strong through fiscal 2016. We believe Shenandoah has what we consider strong access to external liquidity, because it has frequently issued tax-backed bonds, including GO bonds and certificates of obligation.

Weak debt and contingent liability profile

In our view, Shenandoah's debt and contingent liability profile is weak. Total governmental fund debt service is 22.1% of total governmental fund expenditures, and net direct debt is 124.3% of total governmental fund revenue.

Approximately 76.6% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We believe the city's debt burden will remain weak over the near term. The city's significant growth in tax base over the past several years has brought the debt burden below 10% of AV. We understand the city has about \$3.1 million of authorized-but-unissued bonds remaining. However, management has indicated there are no plans to issue additional debt at this time.

Shenandoah's pension contributions totaled 4.9% of total governmental fund expenditures in 2014. The city made 90% of its annual required pension contribution in 2014.

Shenandoah 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 the TMRS, an actuary determines the contribution rate annually; the city contributes to the TMRS plan at the actuarially determined rate. Shenandoah also provides other postemployment benefits (OPEB) in the form of group-term life insurance. The TMRS operates the OPEB plan, known as the supplemental death benefits fund.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our view of the city's very strong budgetary flexibility and liquidity position, supported by its strong budgetary performance and economic base. We do not expect to change the rating in the next two years, as

we expect the city's budgetary performance will remain strong to adhere to the informal fund balance policy.

Upside scenario

Improved financial practices and policies, coupled with sustained reserves above 75% of expenditures, could result in a higher rating.

Downside scenario

Conversely, a weakening of the city's reserve levels or budgetary performance could result in a lower rating.

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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Institutional Framework Overview: Texas Local Governments

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