S&P Global
Ratings

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Summary:
Meadows Place, Texas; General Obligation

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Summary:

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Credit Profile		
Meadows Place GO		
Long Term Rating	AA+/Stable	Upgraded
Meadows Place go bnds		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on Meadows Place, Texas' general obligation (GO) bonds to 'AA+' from 'AA'. The outlook is stable.

The upgrade reflects the city's improving market values, benefiting from its location in the broad and diverse Houston-The Woodlands-Sugarland metropolitan statistical area (MSA), along with its growing reserves and decreasing debt.

The bonds constitute direct and voted obligations of the city, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within its borders.

State statutes limit the maximum ad valorem tax rate for home rule cities to $2.50 per $100 of taxable assessed valuation (AV) for all city purposes. In fiscal 2019, the city levies 83.2 cents per $100 of AV for the fourth year running. We rate the bonds on par with our view of the city's general creditworthiness, as the tax base supporting the obligations is coterminous with the city, and we see no unusual risks regarding the city's willingness to support the debt or the fungibility of resources.

The ratings reflect our opinion of the city's:

- Strong economy, with access to a broad and diverse MSA;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2017 of 88% of operating expenditures;
- Very strong liquidity, with total government available cash at 102.8% of total governmental fund expenditures and 15.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 6.6% of expenditures and net direct debt that is 14.3% of total governmental fund revenue, as well as rapid amortization, with all debt

scheduled to be retired in 10 years; and

- Strong institutional framework score.

Strong economy

We consider Meadows Place's economy strong. The city, with an estimated population of 5,537, is in Fort Bend County 20 miles southwest of the Houston-The Woodlands-Sugar Land MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 130% of the national level and per capita market value of $65,674. Overall, market value grew by 5.8% over the past year to $363.6 million in 2019. The county unemployment rate was 4.6% in 2017.

Reflecting the nature of employment opportunities available to residents locally and throughout Houston, the property tax base has grown steadily during the past few years. Most of the growth is expected to come from commercial projects since the residential area is fully built out. A former bankrupt mall covering 32,000 square feet was sold to new owners, and the new businesses are expected to generate additional property and sales tax. Officials continue to encourage the development of new local businesses such as corner shops and gas stations. Improvements to the city include reconstruction of the West Airport Boulevard, a new emergency training center, and a nature center, as well as improvements to the park facilities. Furthermore, the city has introduced e-payment options for utilities and municipal court citations to facilitate online payments.

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.

The city produces its budget conservatively, in part as a general best practice, but also to prepare for unexpected incidents such as burst water pipes due to shifting clay soils, such as which occurred in August 2011. The budget process includes review of five-year revenue and expenditure history, as well as departmental review of planned expenditures to set the budget for the year. Management uses actual and historical data for assumptions, and monitors sales tax and city revenue streams for budget assumptions.

There is an informal reserve policy in place, which has increased reserves to cover 11-17 months from six-to-nine months in 2016 to increase cushion for weather event risks such as Hurricane Harvey, since reimbursements from FEMA can take some time to come through.

The city does not have a long-term capital plan, but each department does assess needs and plans for projects independently to fit with annual budget; for example, in 2015, the street department implemented a $5 per month road use fee which has enabled additional street repairs. The city lacks a formal debt policy and long-term financial plan.

Very strong budgetary performance

Meadows Place's budgetary performance is very strong, in our opinion. The city had operating surpluses of 5.7% of expenditures in the general fund and 4.8% across all governmental funds in fiscal 2017.

General fund balances have been in surplus since fiscal 2015, with fiscal 2017 ending at just under $343,000, reflecting a slight uptick of property tax revenue. Estimates provided for fiscal 2018 indicate that revenue exceeded the budget, while expenses remained under budget, with an approximate year-end net gain of $600,000. Property tax and sales tax make up 27% and 11% of general fund revenue, respectively.

Officials do not anticipate any major budgetary challenges for 2019. The adopted general fund budget for fiscal 2019 will remain balanced, and a targeted one-time capital project is anticipated for street replacements and improvements.

Very strong budgetary flexibility

Meadows Place's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2017 of 88% of operating expenditures, or $5.3 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city has an informal fund balance policy to maintain a minimum of 11 months of general fund revenues in unassigned fund balance. It has historically maintained reserves well above this level. The tax rate has remained consistent since its decrease to 83.2 cents from 89.5 cents in 2013, partly reflecting the increased homestead exemption by state law to plateau the reserve level. This has allowed the city council to maintain the current high reserve level, which it continues to monitor.

The city has a history of outperforming its approved budget, and we believe that it is likely to maintain very strong reserves.

Very strong liquidity

In our opinion, Meadows Place's liquidity is very strong, with total government available cash at 102.8% of total governmental fund expenditures and 15.6x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary, as demonstrated through prior issuance of GO debt.

Fund balances have been increasing since 2015, reaching $6.6 million in fiscal 2017, and are maintained well above debt service levels, reflecting conservative budgeting practices. We do not view the city's investments as aggressive, with current investments held in state investment pools. The city does not have private placements nor exposure to any contingent liquidity risks.

Very strong debt and contingent liability profile

In our view, Meadows Place's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.6% of total governmental fund expenditures, and net direct debt is 14.3% of total governmental fund revenue. All of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city has approximately $960,000 in net direct debt. Despite being authorized to issue an additional $2.7 million, officials do not plan to issue more debt in the next 18 months.

Meadows Place's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 2.1% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution in 2017.

The city participates in the Texas Municipal Retirement System, which is administered by the State of Texas. The city's required pension contribution is its actuarially determined contribution, which is calculated at the state level, based on an actuary study. Using updated reporting standards in accordance with Governmental Accounting

Standards Board Statement No. 67, the city's net pension liability was $1.8 million as of Dec. 30, 2017. The plan reported a funded ratio of 76.5%.

The city does not offer OPEBs.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Meadows Place will likely maintain its very strong financial position due to stable revenues, strong reserves, and limited services, despite a lack of formalized long-term management policies. In addition, we believe the city's access to the broad and diverse Houston MSA provides additional rating stability. Therefore, we do not anticipate that the rating will change in the next two years.

Upside scenario

If continued economic expansion were to result in stronger tax base wealth comparable with higher rated peers, coupled with improvements in long-term planning practices and policies, we could raise the rating.

Downside scenario

If the city's financial performance were to significantly deteriorate, leading to sustained and significant decreases in reserves to levels no longer commensurate with those of peers, or if the debt position worsened, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015