FITCH RATES ABILENE, TX'S GO BONDS AND COS 'AA+'; OUTLOOK STABLE

Fitch Ratings-Austin-08 June 2017: Fitch Ratings has assigned a 'AA+' rating to the following obligations of Abilene, Texas:

--$14 million general obligation (GO) bonds, series 2017;
--$18.9 million combination tax and limited surplus revenue certificates of obligation (COs), series 2017.

In addition, Fitch affirms the following ratings at 'AA+':

--$92.1 million in outstanding GO bonds;
--$189.6 million in outstanding COs;
--The city's Issuer Default Rating (IDR).

The Rating Outlook is Stable.

The GO bonds and COs are scheduled to sell via negotiation June 21. Proceeds from the GO bonds will be used for various public improvements. Proceeds from the COs will be used for a public safety facility and water/sewer improvements.

SECURITY
The GO bonds and COs are payable from an ad valorem tax levied against all taxable property within the city, subject to a $2.50 per $100 assessed valuation limitation prescribed by law. The COs are additionally payable from a pledge of the surplus revenues of the city's water and sewer system, limited to $2,500 per year.

KEY RATING DRIVERS

The 'AA+' IDR, GO, and CO ratings reflect the city's superior financial resilience and low liability burden. These metrics, as well as Abilene's role as a regional hub, help to offset concern over the city's reliance on federal activity at Dyess AFB.

Economic Resource Base
Abilene is the commercial, educational, and healthcare hub of west central Texas. The estimated population is over 120,000, including about 5,400 military and civilian personnel stationed at Dyess Air Force Base (AFB). The city is home to two public hospitals and six higher education institutions.

Revenue Framework: 'aaa' factor assessment
The city's independent legal ability to raise operating revenues is ample and the growth prospects for general fund revenues are solid.

Expenditure Framework: 'aa' factor assessment
Fitch expects expenditure growth to trend in line with to slightly above revenue growth. The city's spending flexibility incorporates moderate carrying costs and strong management control over workforce spending.

Long-Term Liability Burden: 'aaa' factor assessment

The long-term liability burden is modest and is expected to remain low based on current debt plans and pension trends.

Operating Performance: 'aaa' factor assessment
Abilene derives significant financial flexibility from its control over revenues and spending (inherent budget flexibility) supplemented by healthy operating reserves. Fitch expects that conservative budget practices will maintain the city's strong financial position.

RATING SENSITIVITIES
Shift in Fundamentals: The IDR is sensitive to material shifts in the city's strong revenue and expenditure flexibility and operating performance, which Fitch expects the city to maintain throughout economic cycles.

CREDIT PROFILE

Abilene is located 150 miles west of Fort Worth, along Interstate 20. The city's primary employment sectors are government, education, healthcare, and retail; the city serves an estimated retail base of about 300,000. The city has limited exposure to the oil and gas sector, primarily through the sector's impact on Abilene's retail sales. As the city's largest employer, Dyess AFB plays a key role in the local economy. A significant reduction of troops or activity at the base would materially impact the economic profile.

The city's tax base is fairly diverse with recent investments in the healthcare, retail, and light industrial sectors. Taxable assessed value (TAV) has grown at a steady rate, even during the recession. The city's higher education sector, which includes three universities, has an aggregate enrollment over 12,000 or about 10% of the city's population.

Revenue Framework
Sales taxes provide nearly 37% of the city's operating revenues, followed by property taxes (35%) and franchise taxes (11%). Sales tax collections grew by a strong compound annual rate of 3.6% from fiscal 2005-2015. However, sales tax receipts declined by 3.5% in fiscal 2016 which reflects both a temporary project-related bump in prior years and slowed oil and gas activity in the region surrounding Abilene.

General fund revenues grew by a compound annual rate of 2.6% for the 10 years ending in fiscal 2016, exceeding CPI but below U.S. GDP. Fitch expects that revenues will continue this trend based on recent and planned economic investments.

Abilene's property tax rate is $0.75 per $100 of TAV, providing ample flexibility to raise operating revenues within the constitutional rate cap of $2.50. If a proposed tax rate results in an 8% year-over-year levy increase (based on the prior year's values), the rate increase may be subject to election if petitioned by voters.

Expenditure Framework
General fund spending is led by public safety, which makes up 55% of the total. Spending growth in that area has trended in line with other categories.

Given the city's modest population growth trend, Fitch does not anticipate pressure on service levels. Fitch expects expenditures to grow in line with or slightly above revenue growth over to the near to medium term.

Abilene's fixed cost burden is moderate, as carrying costs for debt, pensions, and other post-employment benefits (OPEB) equal about 13% of governmental expenditures. The city's contracts with police and fire employee groups are flexible in the event of economic downturn, and management has the ability to impose terms unilaterally if an agreement is not reached during Texas's meet-and-confer process of collective bargaining for municipalities. Management also retains a strong degree of control over headcount, wages, benefits, and work rules. Abilene has demonstrated the ability to cut spending through attrition and indicates remaining flexibility in personnel spending in the event of a revenue downturn.

Long-Term Liability Burden

The long-term liability burden, including overall tax-supported debt and net pension liabilities, is low at 8% of personal income. Abilene voters approved an $81 million GO bond authorization in 2015, which will be about 83% utilized with this offering. The overall liability burden is led by overlapping debt which accounts for 41% of the total. Abilene's liability burden is expected to remain in the low range based on management's current issuance plans and regional capital needs.

Civilian and certain public safety employees participate in an agent multiple employer defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS) which has a net asset to liabilities ratio of 85.8%. Firefighters participate in a single-employer defined benefit pension plan. The net pension liability of both plans, adjusted for a 6% rate of return assumption, equals 2.7% of personal income and the city regularly contributes to plans at the actuarially determined amounts.

Abilene issued $208 million of COs in 2013-2016 to fund capital projects in response to drought conditions, and adopted annual utility rate increases to support the additional debt service. Despite the rate hikes, the city's rates compare favorably to similarly sized Texas systems. Fitch considers this debt to be self-supporting based on the health of the water and sewer system, but a failure to raise rates sufficiently could expose the city's general operations to the potential need to support debt service.

Operating Performance

The city's financial resilience is derived from robust revenue control and expenditure flexibility. In addition, the city maintains high reserves ($26 million, or 31% of spending, at fiscal 2016 year-end). In an economic downturn scenario, Fitch expects the city would experience a modest level of revenue volatility and utilize its superior inherent budget flexibility to maintain reserves consistent with an 'aaa' assessment level.

The city's conservative budget practices have historically maintained healthy operations, including cutting spending in fiscal 2016 in response to slower sales tax collections. The fiscal 2016 audit posted a modest draw down of fund balance ($432,000 or 0.5% of spending) for one-time spending items and expects balanced results for fiscal 2017. Year-to-date sales tax receipts for the first eight months of fiscal 2017 are in line with the budget assumption of flat growth for this revenue source.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
https://www.fitchratings.com/site/re/898466