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## Summary:
# Bullard, Texas; General Obligation

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### Summary:

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| Credit Profile | | |
|---|---|---|
| Bullard GO (AGM) | | |
| *Unenhanced Rating* | A+(SPUR)/Stable | Upgraded |

Many issues are enhanced by bond insurance.

## Credit Highlights

- S&P Global Ratings raised its underlying rating to 'A+' from 'A' on Bullard, Texas' series 2021 certificates of obligation (COs).
- The outlook is stable.
- The upgrade reflects improved reserves following three consecutive surpluses, along with better economic metrics.

### Security

The series 2021 COs are direct obligations of the city payable from revenue from a continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within its boundaries. The certificates are additionally secured by a surplus revenue pledge of the city's waterworks and sewer system after all other expenses are paid. We rate the certificates based on the city's general obligation (GO) pledge as we don't have sufficient information to rate the revenue pledge. The maximum allowable rate for general law cities in Texas is $1.50 per $100 of assessed value (AV) for all purposes. In fiscal 2024, the city levies 56.25 cents per $100 of AV, with 30.37 cents dedicated to debt service. We do not differentiate between the city's limited-tax GO debt and its general creditworthiness, because the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources.

### Credit overview

Bullard's financial profile has strengthened significantly in the past two years, pushing reserves to a little above 50% of expenditures at fiscal year-end 2022, with another surplus anticipated in fiscal 2023 (ended on Sept. 30). The credit profile is boosted by improved economic metrics that reflect the growth in the area and the city's access to the broad and diverse Tyler metropolitan statistical area (MSA).

Given ongoing development, Bullard's main challenges include providing sufficient infrastructure and meeting an increasing demand for services, while operating within the state's revenue raising constraints. We believe there could be some operating challenges related to the growth as the city lacks basic financial-management practices related to long-term planning and operating reserves in particular, and its fixed charges are very high, limiting expenditure flexibility. We consider Bullard's debt burden a credit weakness that will continue to be a constraining factor, especially with the city planning on issuing as much as $26 million in new debt in the next few years, which could increase its net direct-debt burden to over 900% of total governmental funds revenue, significantly above that of peers and other municipalities in Texas.

The 'A+' rating reflects our view of the city's:

- Improved reserves that are no longer nominally low, but flexibility is constrained by limited capacity to cut spending;
- Standard management practices and a strong institutional framework score;
- Expanding economic base that benefits from access the broad and diverse Tyler MSA; and
- Very weak debt profile and manageable pension and other postemployment benefits (OPEB) exposure, but combined carrying charges that are very high and approaching 40% of governmental fund expenditures.

### Environmental, social, and governance

We analyzed environmental, social, and governance (ESG) factors relative to Bullard's credit fundamentals and consider them neutral in our rating analysis. We note that the growth the city is experiencing will continually increase demand for services and infrastructure, and the lack of financial policies in many areas could pose a risk if the growth is not managed to control the increasing budget and especially the rising debt burden and fixed costs.

## Outlook

The stable outlook reflects our opinion that finances will remain strong over the next two years and the city's economy will be stable due to its location in the broad and diverse Tyler MSA.

### Downside scenario

We could lower the rating if there is a trend of imbalanced operations and reserves weaken to levels that we don't consider commensurate with the rating, or if combined debt and pension charges exceed 40% of governmental funds expenditures on as sustained basis, pressuring the budget.

### Upside scenario

We could raise the rating if the city's debt profile and carrying charges moderate significantly and are maintained at levels in line with those of higher-rated peers, and if management formalizes additional policies and long-term plans and maintains very strong reserves.

## Credit Opinion

### Growing tax base, with strengthening income and wealth levels

Bullard is a small community about 15 miles south of Tyler. The city is mostly residential and has experienced significant population growth over the past two decades, which management attributes to a desirable local school district as well as its distance to Tyler and Jacksonville, which provide for an easy work commute.

Officials report ongoing residential development, with several new phases being added to existing subdivisions.

New commercial developments are fairly limited currently, but management expects this will change once the Texas Department of Transportation completes the widening of farm-to-market (FM) road 2493 in the next three to five years, which will open up commercial space in the city.

### Adequate management; lack of many basic policies compared to higher-rated peers

Highlights of management's practices include:

- Several years of historical trend analysis when preparing the budget;
- Budget amendments done at the end of each year for expenditures only, if needed;
- Budget-to-actual reports provided to the council monthly; and
- The city follows state investment guidelines.

Bullard does not maintain long-term financial or capital plans and the city does not have a reserve or debt management policy.

The institutional framework score for Texas municipalities is strong.

### Surpluses lead to improved reserves, but operating pressures pose a risk

Bullard posted three consecutive surpluses, strengthening reserves to about 50%, although available fund balance remains fairly narrow on a nominal basis, which leaves little flexibility to manage any fiscal challenges. The city's primary general fund revenues are property taxes (38%) and sales taxes (19%). Recurring transfers are made annually into the general fund from the city's utility fund and included in our ratios.

Officials attribute the operating results to conservative budget assumptions and revenues (in particular property and sales taxes) exceeding expectations given ongoing economic growth and estimate that fiscal 2023 ended with another small surplus.

The adopted fiscal 2024 budget is balanced. For future budgets, management projects continued growth given the city's development but expects to produce at least balanced operations well within the constraints of ad valorem tax limitations.

Our assessment of performance includes potential volatility due to the city's small budget size - even small performance fluctuations on a nominal basis, such as unplanned capital expenditures, can lead to large percentage fluctuations. In addition, our assessment reflects the unusually high combined debt and pension carrying charges that are approaching 40% and could pose budgetary pressures if not managed or if revenues stagnate or decline.

The city has several private placements outstanding with the total principal of about $3.9 million, which accounts for 56% of total direct debt. The privately placed bonds, notes, and COs do not pose a contingent liquidity risk, in our view, as legal provisions do not include unusual provisions.

### High debt burden, with significant additional debt plans

City officials anticipate issuing as much as $25 million in additional new debt in the next three-to-five years for the construction of a wastewater treatment plant and $1 million for a water well.

The city intends for the debt to be partially supported by the utility fund. According to our criteria, once the utility fund pays the debt, we will give self-support credit for that portion of the debt but only once there is a three-year track record of the utility fund making debt service payments.

We expect that the city's debt burden will remain well above those of peers in the coming years, which limits upward rating potential.

Pension and OPEB liabilities

We do not view pension and OPEB liabilities as an immediate credit risk. While current contributions are manageable, we anticipate these costs will increase given amortization and payroll growth assumptions. However, we believe Bullard has sufficient budgetary flexibility and liquidity to address these costs.

The city participates in the Texas Municipal Retirement System, a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the state. Bullard's net pension liability was $668,000 as of Dec. 31, 2021, and the plan's funded ratio was 79.8%, assuming a 6.75% discount rate. Contributions fell short of minimum funding progress and our static funding metric, which indicates lack of funding progress.

**Bullard, Texas--Key credit metrics**

| | Most recent | Historical information | | |
|---|---|---|---|---|
| | | 2022 | 2021 | 2020 |
| **Strong economy** | | | | |
| Projected per capita EBI % of U.S. | 92.2 | | | |
| Market value per capita ($) | 166,386 | | | |
| Population | | 3,315 | 3,267 | 3,168 |
| County unemployment rate(%) | | 3.7 | | |
| Market value ($000) | 551,571 | 402,907 | | |
| Ten largest taxpayers % of taxable value | 15.2 | | | |
| **Adequate budgetary performance** | | | | |
| Operating fund result % of expenditures | | 18.7 | 24.2 | 0.6 |
| Total governmental fund result % of expenditures | | 17.0 | 21.7 | 3.8 |
| **Strong budgetary flexibility** | | | | |
| Available reserves % of operating expenditures | | 53.8 | 32.1 | 8.5 |
| Total available reserves ($000) | | 1,305 | 798 | 197 |
| **Very strong liquidity** | | | | |
| Total government cash % of governmental fund expenditures | | 157.5 | 105.8 | 55.6 |
| Total government cash % of governmental fund debt service | | 471.1 | 340.8 | 190.1 |
| **Adequate management** | | | | |
| Financial Management Assessment | Standard | | | |
| **Very weak debt and long-term liabilities** | | | | |
| Debt service % of governmental fund expenditures | | 33.4 | 31.0 | 29.3 |
| Net direct debt % of governmental fund revenue | 197.6 | | | |
| Overall net debt % of market value | 8.8 | | | |
| Direct debt 10-year amortization (%) | 83.2 | | | |
| Required pension contribution % of governmental fund expenditures | | 5.3 | | |
| OPEB actual contribution % of governmental fund expenditures | | 0.0 | | |

| Bullard, Texas--Key credit metrics (cont.) | | | | |
|---|---|---|---|---|
| | Most recent | Historical information | | |
| | | 2022 | 2021 | 2020 |
| **Strong institutional framework** | | | | |

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 Update Of Institutional Framework For U.S. Local Governments

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