

# RatingsDirect®

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## Summary:

# Friendswood, Texas; General Obligation

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## Summary:

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### Credit Profile

US\$9.655 mil GO Bnds ser 2015 dtd 01/01/2015 due 03/01/2030

*Long Term Rating*

AA+/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Friendswood, Texas' series 2015 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the city's GO bonds. The outlook is stable.

The bonds are secured by a full faith and credit pledge of the city.

The ratings reflect our assessment of the city's:

- Strong economy with access to the Houston metropolitan statistical area (MSA),
- Strong and conservative management,
- Very strong reserves, and
- Adequate debt and contingent liabilities profile.

### Strong economy

Friendswood has a strong economy, with per capita market value at roughly \$62,136 and projected per capita effective buying income at 176.3% of the national level. The city is about 15 miles south of downtown Houston. Many city residents commute to jobs throughout the Houston-The Woodlands-Sugar Land MSA, especially aerospace jobs in the Clear Lake area and health care work at the Houston Medical Center. The city benefits from access to the broad and diverse economy of the Houston MSA. It has an estimated population of 38,031 and a total assessed value (AV) of approximately \$2.3 billion for fiscal 2015. The tax base is very diverse, with the 10 principal taxpayers accounting for 3.3% of total AV. The city is mainly in Galveston County, with about 28% in Harris County. Galveston County's unemployment rate in 2013 was 6.6%.

### Very strong budgetary flexibility

In our view, Friendswood's budgetary flexibility is very strong, with the city maintaining an available fund balance in excess of 47% of total general fund expenditures. Fiscal 2013 audited results reflected a fund balance of \$10.2 million, or roughly 47.1% of general fund expenditures, which we consider very strong. Management attributes this to increased property and sales tax revenues and lower general government expenditures. Fiscal 2014 projections reflect a fund balance of 50%, maintaining budgetary flexibility that we consider very strong.

### Adequate budgetary performance

We consider Friendswood's budgetary performance adequate, with a surplus of 6% for the general fund and a small deficit of 2% for the total governmental funds in fiscal 2013. The city has had minor deficits in the past three years and

had budgeted a small deficit of about \$267,000 for fiscal 2014, but unaudited results indicate a surplus of about \$1 million. The outlook for fiscal 2015 is that the city intends to have general fund surpluses, thereby maintaining its budgetary performance.

### **Very strong liquidity**

In our view, Friendswood's liquidity is very strong, with total government available cash at 96% of total governmental fund expenditures and total government available cash of 1,023% of debt service for fiscal 2013. Projections for fiscal 2014 indicate the city will maintain its very strong liquidity. Based on past issuance of debt, we believe that Friendswood has strong access to capital markets to provide for liquidity needs if necessary.

### **Strong management conditions**

We consider the city's management conditions strong, with "good" financial practices under our Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

### **Adequate debt and contingent liabilities**

We consider Friendswood's debt and contingent liabilities adequate, with fiscal 2013 total governmental fund debt service equal to 9.4% of total governmental funds expenditures and net direct debt equal to 72.6% of fiscal 2014 total governmental funds revenue. Debt is amortized rapidly, with 70.9% of debt to be repaid over 10 years. In our opinion, the overall net debt burden is moderate, at 7.9% of 2014 market value. Management plans to issue additional debt in fiscal 2017 and fiscal 2019.

The city participates in the Texas Municipal Retirement System (TMRS). Its annual contribution to the pension system was \$1.7 million in fiscal 2013, or 100% of the annual required contribution. The city also provides other postemployment benefits (OPEBs) to retirees through TMRS by participating in the term life insurance plan. The annual pension and OPEB costs for fiscal 2013 accounted for 7% of total government expenditures, and these costs are not anticipated to increase substantially in the near term.

### **Strong institutional framework**

We consider the Institutional Framework score for Texas cities strong. See Institutional Framework score for Texas.

## **Outlook**

The stable outlook reflects Standard & Poor's opinion that Friendswood will likely maintain budgetary flexibility and liquidity that we consider very strong. The outlook also reflects our expectation that the depth and breadth of the Houston MSA economy will not change significantly.

While we believe it unlikely within the two-year outlook period, we could raise the ratings if the city were to improve its management conditions by formalizing several of its financial management practices and maintaining its adequate budgetary performance. Conversely, we could lower the ratings if the city's debt profile or budgetary performance were to deteriorate.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

### Ratings Detail (As Of November 21, 2014)

#### Friendswood GO

*Long Term Rating*

AA+/Stable

Affirmed

#### Friendswood GO

*Unenhanced Rating*

AA+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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