

RatingsDirect®

Summary:

Friendswood, Texas; General Obligation

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Credit Profile

US\$9.43 mil go rfdg bnds ser 2014 dtd 11/01/2014 due 03/01/2028

Long Term Rating AA+/Stable New

Friendswood GO

Long Term Rating AA+/Stable Affirmed

Friendswood GO

Unenhanced Rating AA+(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' long-term rating on Friendswood, Texas' general obligation (GO) bonds. In addition, we assigned our 'AA+' rating to the city's series 2014 GO refunding bonds. The outlook is stable.

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

The rating reflects our assessment of the city's:

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

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 what we consider very strong budget flexibility.

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 for fiscal 2014 of about \$267,000, but unaudited results indicate a surplus of about \$1 million. The outlook for 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 methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

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 is a moderate 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.

Outlook

The stable outlook reflects Standard & Poor's opinion that Friendswood will likely maintain what we consider its very strong budgetary flexibility and liquidity. 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 rating if the city improved its

management conditions by formalizing several of its financial management practices and maintaining its strong budgetary performance. Conversely, we could lower the rating 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

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