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Summary:

Little Elm, Texas; General Obligation

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Credit Profile

Little Elm GO (ASSURED GTY)

Unenhanced Rating

AA-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' underlying rating (SPUR) on Little Elm, Texas' outstanding general obligation (GO) debt. The outlook is stable. Following our last review of the city's bond rating the city provided corrected information regarding the amount of capital spending supported by bond proceeds. In light of this information, we have revised the city's budgetary performance to strong from weak.

The ratings reflect our assessment of the following factors of the town:

- Adequate economy, which benefits from participation in the broad and diverse Dallas-Fort Worth-Arlington, Texas metropolitan statistical area (MSA);
- Very strong budgetary flexibility, with fiscal 2013 audited reserves at 39% of expenditures;
- Strong budgetary performance;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management with good financial practices; and
- Very weak debt and contingent liabilities profile, driven mostly by the town's high direct debt burden.

Adequate economy

We view Little Elm's local economy as adequate, with projected per capita effective buying income at 93% of the national average and per capita market value of roughly \$57,000. The town's population has more than quadrupled during the past decade to roughly 31,000. It is a developing suburban town on the peninsulas of Lewisville Lake, 10 miles east of Denton. In our view, residents of this bedroom community benefit from participation in the broad and diverse Dallas-Fort Worth-Arlington MSA, which we view as a credit strength. Recent development includes substantial continued residential development, the addition of various new retail and restaurant establishments, and the construction of a Holt Caterpillar sales and repair facility likely to open in October 2014. According to the Bureau of Labor Statistics, the Denton County unemployment rate in 2013 was 5.5%.

Very strong budgetary flexibility

We view Little Elm's budgetary flexibility as very strong, with available reserves at approximately \$6.7 million, or 39% of operating expenditures, in fiscal 2013. Town officials have no plans to significantly draw down on the reserves in the near term. In our opinion, reserves are a credit strength as the available fund balance was above 30% for the most recent audited year and we expect it will exceed 30% for the current and the following years.

Strong budgetary performance

We view Little Elm's budgetary performance as strong overall, with a deficit of 1% for the general fund and a surplus of 9% for the total governmental funds in fiscal 2013, after accounting for certain recurring transfers in from enterprise funds and net of the spend-down of roughly \$9 million of previously deposited bond proceeds. Despite the general fund deficit, the town has actually achieved surpluses in the two prior years and is expected to end fiscal 2014 with a surplus of about 10%. The town's total governmental capital expenditures have averaged about \$11 million during the past five years (between fiscal years 2009 and 2013), as compared to the total governmental funds budget of \$32.3 million for fiscal 2013, much of which the city has funded through bond proceeds.

Very strong liquidity

In our view, very strong liquidity supports Little Elm's finances, with total government available cash to government fund expenditures and cash to debt service at 78% and 5.2x, respectively. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.

Strong management

In our view, Little Elm's management conditions are 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 monitor all of them on a regular basis. Strengths of the assessment, in our opinion, include the town's conservative revenue and expenditure assumptions in its budgeting process, strong oversight in terms of monitoring its progress against the budget during the year, a five-year capital improvement plan with funding sources identified for each project, a formal investment policy, monthly updates to council regarding the budget and investments, and a formalized reserves policy requiring the town to maintain an unreserved fund balance equal to at least 25% of revenues.

Very weak debt and contingent liabilities

In our opinion, Little Elm's debt and contingent liabilities profile is very weak. Total governmental fund debt service is 14.8% of total governmental funds expenditures, and net direct debt is 205% of total governmental funds revenue. The overall net debt burden is high, in our view, at 10.0% of market value.

The town provides pension benefits for all of its eligible employees through the statewide Texas Municipal Retirement System, a nontraditional, joint contributory, hybrid defined-benefit plan. Last year, Little Elm contributed 100% of its annual required pension contribution. The annual pension costs accounted for 3% of the total government expenditures in fiscal 2013. As of the last actuarial report dated Dec. 31, 2012, the town's pension was 76% funded. The town does not provide other postemployment benefits.

Strong institutional framework

We consider the Institutional Framework score for Texas cities strong.

Outlook

The stable outlook reflects our expectation that during the two-year outlook time frame, Little Elm will maintain its very strong reserves and will remain subject to capital pressures given its strong growth. Moderation of the town's debt

and contingent liabilities position could lead to a positive rating action. Conversely, a deterioration of its budgetary flexibility could place downward pressure on the ratings.

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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