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Summary:

Little Elm, Texas; General Obligation

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Credit Profile

US\$14.385 mil GO rfdg bn ds ser 2017 dtd 01/17/2017 due 08/01/2035		
<i>Long Term Rating</i>	AA/Stable	New
US\$12.0 mil comb tax and ltd pledge rev certs of oblig ser 2017 dtd 01/17/2017 due 08/01/2037		
<i>Long Term Rating</i>	AA/Stable	New
Little Elm comb tax and ltd pledge rev certs of oblig ser 2015		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Little Elm GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Little Elm GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term and underlying ratings (SPUR) on Little Elm, Texas' general obligation (GO) debt one notch to 'AA' from 'AA-'. The outlook is stable. At the same time, S&P Global Ratings assigned its 'AA' long-term rating and stable outlook to the city's series 2017 GO refunding bonds, and to its series 2017 combination tax and limited-tax surplus revenue certificates of obligation.

The raised rating reflects our opinion of the city's economic improvement driven by strong tax base growth coupled with sustained and very strong reserves.

A direct property tax levy, within the limits prescribed by law, on all taxable property in the city secures the series 2017 bonds. The series 2017 certificates are payable from the same limited-ad valorem-tax levy and net surplus water and sewer revenue, not to exceed \$1,000. The city's current ad valorem tax rate is 66 cents per \$100 of assessed value (AV), well below the maximum allowable tax rate of \$2.50 per \$100 of AV. The certificates lack the necessary bond provisions to determine a rating under our utility criteria. Therefore, we rate both obligations under our GO criteria because we do not differentiate between the limited- and unlimited-tax pledges due to the city's tax rate flexibility, very strong liquidity, and high investment-grade debt.

We understand officials intend to use series 2017 bond proceeds to refund a portion of the city's existing debt for debt service savings and series 2017 certificate proceeds to finance an expansion of the city's wastewater treatment plant.

The rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;

- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 38% of operating expenditures;
- Very strong liquidity, with total government available cash at 42.8% of total governmental fund expenditures and 3.7x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 11.6% of expenditures and net direct debt that is 193.3% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Little Elm's economy strong. The city, with an estimated population of 35,048, is located in Denton County in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 93.8% of the national level and per capita market value of \$80,197. Overall, the city's market value grew by 16.1% over the past year to \$2.8 billion in 2017. The county unemployment rate was 3.6% in 2015.

Little Elm's population has more than quadrupled during the past decade to more than 35,000. The developing suburban city--on the peninsulas of Lewisville Lake, 10 miles east of Denton--primarily serves as a bedroom community with direct access to the Dallas-Fort Worth-Arlington MSA, affording residents the ability to commute throughout the metroplex for employment opportunities. The city continues to have strong residential and commercial development, which has supported double digit AV growth in each of the past three years. We believe continued housing demand and future planned development will support strong property tax base growth and a strong economy over the next two fiscal years.

Strong management

We view the city's management as strong, with "good" financial policies and 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.

Key practices include management's:

- Historical trend analysis when compiling the budget, along with the use of outside sources, where applicable;
- Monthly budget and quarterly investment reports to the city council;
- Investment policy that is compliant with the Texas Public Funds Investment Act;
- Long-term, five-year financial plan with comprehensive assumptions built in that it updates annually;
- Five-year rolling capital plan that identifies various projects and funding sources; and
- Formal policy of maintaining, at least, 25% of expenditures in reserve, which has been historically adhered to.

The city does not currently have a debt management policy in place.

Strong budgetary performance

Little Elm's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 1.7% of expenditures, and balanced results across all governmental funds of 0.2% in fiscal 2015.

After adjusting for recurring transfers and large 1x expenditures, the city's strong budgetary performance is supported

by general fund surpluses in two of the last three audited years. Property taxes and licenses and permits generated the bulk of fiscal 2015 general fund revenue, accounting for 43.9% and 17.6%, respectively. For fiscal 2016, officials estimate a \$587,000 surplus in the general fund driven by conservative budgetary practices with actual revenues exceeding budgeted expectations. The city adopted a small surplus budget in fiscal 2017 with no use of reserves. We believe that the city's future budgetary performance will likely be driven by capital project funding, given its rapid growth. However, we expect revenue growth and conservative spending practices will continue to support strong budgetary performance in the current and subsequent fiscal years.

Very strong budgetary flexibility

Little Elm's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 38% of operating expenditures, or \$8.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes \$6.7 million (29.2% of expenditures) in the general fund and \$2 million (8.8% of expenditures) that is outside the general fund but legally available for operations.

In fiscal 2015, the city created a fleet replacement fund with a one-time transfer of about \$2 million. It can use this fund to support general operations, if necessary; we began considering this fund as available fund balance starting in fiscal 2015. Therefore, we expect available reserves, when including the fleet replacement fund, to remain very strong over subsequent fiscal years at above 30% of expenditures

Very strong liquidity

In our opinion, Little Elm's liquidity is very strong, with total government available cash at 42.8% of total governmental fund expenditures and 3.7x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We expect the city's liquidity to remain very strong in the near term given Little Elm's estimated fiscal 2016 and 2017 budgeted financial expectations. Little Elm has demonstrated strong access to capital markets with several GO-supported debt issues over the past 20 years. Currently, investments comply with state statutes and we do not consider them aggressive. The city's available liquidity consists primarily of cash, with a small amount invested in TexPool. The city had previously issued its series 2012A GO bonds as privately placed obligations. We have reviewed the documents for nonstandard events of default and do not believe there are any acceleration provisions that would negatively affect the city's liquidity and overall creditworthiness.

Very weak debt and contingent liability profile

In our view, Little Elm's debt and contingent liability profile is very weak. Total governmental fund debt service is 11.6% of total governmental fund expenditures, and net direct debt is 193.3% of total governmental fund revenue. We understand the city has no plans to issue additional debt during the next two years. However, given Little Elm's rate of growth, we anticipate future capital needs will likely continue to constrain its debt profile.

Little Elm's pension contributions totaled 4.1% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015. Little Elm provides pension benefits for all full-time employees through the statewide Texas Municipal Retirement System (TMRS), an agent multiemployer, public-employee retirement system. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB)

Statement No. 67, the city's net pension liability, as of December 2014, was \$3.7 million. The city does not provide other postemployment benefits. TMRS maintained a funded level of 82.3%. The city contributed its full required contribution at the actuarially determined rate. (For additional details on GASB Nos. 67 and 68, please see the report, titled "Incorporating GASB 67 and 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect.)

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our expectation that Little Elm will maintain its very strong reserves despite being subjected to growth related capital needs. We also expect the local economic base will continue to demonstrate strong growth supported by its location in the DFW MSA. We do not expect to change the rating over the two-year outlook period.

Upside scenario

Moderation of the city's debt and contingent liabilities position coupled with economic expansion that significantly improved wealth and income levels could lead to a positive rating action.

Downside scenario

We could lower the rating if the city's financial profile were to experience substantial deterioration.

Related Criteria And Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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