

# RatingsDirect®

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## Summary:

# La Vernia, Texas; General Obligation

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## Summary:

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### Credit Profile

La Vernia comb tax and rev certs of oblig

*Long Term Rating*

AA/Stable

Affirmed

### Credit Highlights

- S&P Global Ratings affirmed its 'AA' long-term rating to La Vernia, Texas' certificates of obligation outstanding and removed the rating from under criteria observation.
- The outlook is stable.
- The rating reflects the application of our methodology for rating U.S. governments, published Sept. 9, 2024, on RatingsDirect.

### Security

Revenue from a limited ad valorem tax levy and limited surplus revenue from the city's waterworks and sewer system secures the certificates. We do not differentiate between the city's limited-tax general obligation (GO) debt and general creditworthiness, as we do not think the taxable base is measurably smaller, and we consider resources fungible. We rate to the strength of the GO pledge on these certificates given the lack of legal covenants in place to assess the strength of the utility pledge.

### Credit overview

The rating reflects our view of the city's role as an affluent bedroom community to San Antonio and moderate long-term liabilities. While we view liquidity balances as nominally low, it is underpinned by stable financial performance in the general fund, which has also been adequate to support deficit operations in the utility fund.

The city is an affluent bedroom community to San Antonio. Management attributes the recent spike in the assessed value growth rate to new home construction. Although the city is nearly built out, management reports that new construction over the near term includes 80 homes, multi-unit projects, and strip center commercial development. This has contributed to 9% year-over-year sales tax revenue growth for fiscal 2024, combined with property tax revenue gains, producing better-than-budgeted results and roughly \$700,000 surplus. Management expects continuation of positive sales tax trends into fiscal 2025 given population growth and another surplus in the general fund, of about \$129,000.

The fiscal 2024 general fund included a 15% salary increase to public safety personnel to boost compensation to competitive levels. Nonpolice personnel received a 5% raise in both fiscal 2024 and fiscal 2025. The general fund has also been supporting the city's proprietary utility fund, which has been carrying negative net assets that management estimates have grown to about negative \$464,000 for fiscal 2024 as a result of water loss and underperforming water meters. Despite significant rate increases of 25% to 35% implemented for fiscal 2025, the city is still projecting about a

\$230,000 deficit in the utility fund and is discussing further rate increases with the city council. According to management, with the support of the general fund, utility operating and repair and maintenance costs have been met, and water supply is sufficient.

The rating further reflects our assessment of the city's:

- Status as an affluent bedroom community to San Antonio. The city is located in Wilson County, which exhibits below-average gross county product. However, we take a positive view of the city's proximity and role as a bedroom community to San Antonio.
- Improving general fund performance as a result of revenue growth, which, despite increased support of deficit operations in its utility fund, is estimated to generate surpluses in fiscal years 2024 and 2025.
- Budgeting practices that have typically produced better-than-budgeted results but lack formalized long-term planning. Officials provide monthly budget reports and quarterly investment reports to the elected officials and have an informal reserve policy to maintain a 35% general fund balance, which they exceed. However, the policy also requires 25% for all other funds, which it does not meet given the deficit net assets in the utility fund.
- Manageable debt and liabilities with adequate funding of retiree benefits. No additional debt plans are being contemplated, with capital needs such as a new police facility and water well anticipated to be funded through partnership with the municipal development district.
- For more information on our institutional framework assessment for Texas cities, see "Institutional Framework Assessment: Texas Local Governments," published Sept. 9, 2024.

### **Environmental, social, and governance**

The rating incorporates our view of the city's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile, which we view as neutral to our credit analysis. We note that the city has a flood zone within its boundaries, but we understand that the zone is an undeveloped area. In addition, climate data suggests Wilson County is at slightly higher risk for wildfires as compared with the state and nation.

### **Outlook**

The stable outlook reflects our anticipation that La Vernia's general fund performance will hold and that the city will continue to raise utility user rates to bring enterprise operations back into balance without overburdening the general fund.

#### **Downside scenario**

We could lower the rating if financial performance were to erode already nominally low reserves or if we come to believe that risk in the utility enterprise operations will pressure general fund performance.

#### **Upside scenario**

We could raise the rating in the unlikely event that the local economy were to expand, coupled with significant growth in reserves and development of more formalized financial planning.

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La Vernia, Texas--Credit summary	
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Table 2

La Vernia, Texas--Key credit metrics		Most recent	2023	2022	2021
<b>Economy</b>					
Real GCP per capita as % of U.S.		32	--	32	32
County PCPI as % of U.S.		86	--	86	87
Market value (\$000s)		230,726	178,700	146,700	128,003
Market value per capita (\$)		169,527	131,301	103,383	93,093
Top 10 taxpayers as % of taxable value		13.3	14.7	14.3	15.6
County unemployment rate (%)		3.2	3.2	3.3	4.4
Local median household EBI as % of U.S.		148	148	135	124
Local per capita EBI as % of U.S.		116	116	114	105
Local population		1,361	1,361	1,419	1,375
<b>Financial performance</b>					
Operating fund revenue (\$000s)		--	2,258	2,071	1,922
Operating fund expenditures (\$000s)		--	2,330	2,742	1,684
Net transfers and other adjustments (\$000s)		--	64	64	(12)
Operating result (\$000s)		--	(8)	(607)	226
Operating result as % of revenue		--	(0.4)	(29.3)	11.8
Operating result three-year average %		--	(6.0)	(7.0)	8.4
<b>Reserves and liquidity</b>					
Available reserves as % of operating revenue		--	53.2	58.8	93.5
Available reserves (\$000s)		--	1,201	1,217	1,797
<b>Debt and liabilities</b>					
Debt service cost as % of revenue		--	9.9	--	--
Net direct debt per capita (\$)		2,480	1,929	1,979	2,170
Net direct debt (\$000s)		3,375	2,626	2,808	2,984
Direct debt 10-year amortization (%)		64	--	--	--
Pension and OPEB cost as % of revenue		--	2	2	2
NPLs per capita (\$)		--	139	56	95

**Table 2**

**La Vernia, Texas--Key credit metrics (cont.)**

	<b>Most recent</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Combined NPLs (\$000s)	--	189	80	130

Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

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