S&P Global
Ratings

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Summary:

Wolfforth, Texas; General Obligation

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Summary:

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Credit Profile		
US$14.0 mil tax and wtrwks and swr sys rev certs of oblig ser 2024 dtd 10/30/2024 due 02/01/2054		
Long Term Rating	AA/Stable	New
Wolfforth GO		
Long Term Rating	AA/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its rating on Wolfforth, Texas' certificates of obligation and general obligation (GO) debt one notch to 'AA' from 'AA-'.
- S&P Global Ratings also assigned its 'AA' rating to the city's proposed $14 million series 2024 combination tax and revenue certificates of obligation.
- The rating reflects the application of S&P Global Ratings' criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- The outlook is stable.
- The rating action reflects our view of the city's growing economy with high income, forward-looking management, and positive finances.

Security

The certificates and GO bonds are direct obligations of the city, payable from an ad valorem tax, levied within the limits prescribed by law, on all taxable property within the city. The maximum allowable rate in Texas is $2.50 per $100 of assessed value for all purposes with the portion dedicated to debt service limited to $1.50. The city's levy is well below the maximum at 78 cents, 15 cents of which is for debt service in fiscal 2025. We rate the GO debt on par with our view of the city's general creditworthiness because the property tax base supporting the obligations is coterminous with the city; we see no unusual risk regarding the fungibility of resources or the city's willingness to support the debt.

A limited pledge of the city's waterworks-and-sewer-system-surplus revenue remaining after all operations-and-maintenance expenses additionally secures the certificates, as well as debt service and other requirements connected with any existing revenue bonds or other obligations. Due to the limited nature of the revenue pledge, we base our rating on the city's GO pledge.

Officials intend to use series 2024 certificate proceeds to finance waterworks-and-sewer-system improvements.

Credit overview

The rating reflects our opinion of the city's rapid tax base growth, coupled with considerably higher income compared with the surrounding area and a history of positive operating results aided by strong revenue growth, somewhat offset by elevated debt.

Due to what, in our opinion, will likely remain a strong revenue performance, underpinned by a growing local economy, we expect limited downside rating pressure through the two-year outlook. However, we think operating pressure from the swiftly growing budget and additional debt plans somewhat constrain the rating. Wolfforth's heavy debt, still relatively small operating budget, and size of reserves somewhat limit the potential for a higher rating during the next few years. We expect rating upside over the long term will likely depend largely on substantive improvement in the nominal size and ratio of reserves compared with its growing revenue base.

Credit fundamentals supporting the rating include the city's:

- Considerably stronger local median household effective buying income compared with Lubbock County, with its per capita gross county product and personal income lagging 'AA' medians;
- History of surplus operating results, which we expect will likely continue during the two-year outlook;
- Reserves, supported by an informal 25% fund-balance policy that management plans to maintain in-line with the growing budget;
- Conservative budgeting, coupled with long-term capital planning and some formal policies--However, the city lacks long-term financial plans and a debt-management policy; and
- High per capita debt, albeit with current costs remaining manageable, with low pension and other postemployment benefit (OPEB) liabilities.
- For more information on our institutional framework assessment for Texas Counties, see "Institutional Framework Assessment: Texas Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

Environmental, social, and governance (ESG) factors are neutral within our credit analysis. We acknowledge the risk of extreme drought in West Texas and the potential associated risks to local communities. However, we think regional initiatives to establish and protect raw-water supplies to support the state's greater water plan somewhat mitigate this risk. The city has also recently entered into a new water-supply contract that should accommodate the growing city during the next decade, if not more. Wolfforth's cybersecurity practices align with its peers.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Wolfforth's conservative management and growing revenue base will likely contribute to maintaining, at least, balanced operations and reserves in-line with its informal target during the next two years despite growth-related budgetary pressure.

Downside scenario

We could lower the rating if budgetary performance were to weaken, resulting in operating deficits that reduce reserves to below its informal reserve target, without a plan for timely replenishment, specifically if utility-system operations and planned rate increases do not keep pace with growing expenses and pressure the general fund. We could also lower the rating if outsized additional debt issuance were to result in a material weakening of debt metrics, particularly current costs, to levels we no longer consider comparable with its peers.

Upside scenario

If all other factors remain equal, we could raise the rating if the city were to manage to increase reserves materially, both nominally and as a percent of the budget despite increasing expenditures associated with the rapidly growing tax base, coupled with implementing more-formal policies and practices.

Credit Opinion

Economy

Wolfforth has experienced rapid residential growth due to its location bordering Lubbock, which serves as the regional economic, education, and health-care center for a 26-county region in West Texas. While Lubbock County has experienced more-modest population growth at roughly 5.1% during the past five years, Wolfforth has grown by about 42.8% due to its rapid housing development within city limits, direct access to employment opportunities, and access to competitive kindergarten-through-12th-grade-education facilities. Market value, which has expanded by 127% during the past five years to $886.6 million for fiscal 2025, reflects this growth.

The county's gross product and per capita income lag similar-rated peers due partially to the large student population in Lubbock County from multiple higher-education centers, including Texas Tech University. However, local economic metrics, particularly per capita income, are much higher than county and national metrics, supporting the higher rating.

Officials indicate there are multiple single-family housing developments in various stages of completion, averaging more than one rooftop completion daily. Most of the newly constructed homes are sold at higher price points than the area average, which has attracted higher earners. With more residents added annually and almost a thousand residences slated for addition to the tax base during the next few years, associated retail and commercial development has commenced, including an industrial park with a furniture warehouse and other spec buildings under construction.

With the large amount of land still undeveloped within its 2.8-square-mile territory, and additional land within its extraterritorial jurisdiction, officials do not currently expect growth will slow during the next few years. Due to its access to employment opportunities and continued residential and commercial investment, we think Wolfforth's expansion will likely continue rapidly during our two-year outlook.

Management

Wolfforth uses three-year trend analysis when formulating revenue and expenditure assumptions for its annual budgeting process and uses outside consultants, particularly when forming utility rates. Management has recently expanded its process for departmental breakdowns, and it charts accounts to better capture variances. We consider the budget forward-looking, incorporating conservative growth assumptions and growing service needs. Management reports budget-to-actual performance to the city council monthly with procedures for budget adjustments in place, if needed.

Wolfforth's formal investment-management policy is in-line with state statutes, and management provides quarterly investment reporting to the council. The city has an informal general fund balance target of maintaining 25% of operations in reserve. The city has a multiyear capital plan that currently extends to 2029 with funding sources identified. However, the city lacks formal long-term financial planning. It does not currently have a debt-management policy.

Financial performance, reserves, and liquidity

Operating results are typically positive. Officials expect a $800,000 surplus in fiscal 2024 due to healthy ad valorem and sales tax growth, coupled with delays in fully implementing the city's first full-time fire department, which it is converting from a volunteer fire department.

Officials balanced the fiscal 2025 budget, which incorporates the implementation of the fire department within expenditures. While the water-and-sewer fund recorded an operating loss in fiscal 2023 due partially to one-time contract payments when securing water rights for the next several decades, officials currently plan to raise both rates and impact fees to support growing operations, as well as to service annual payments for the series 2024 certificates.

We note expenditures have increased 63% between fiscal years 2020 and 2023, and it will likely continue to increase at a similar pace as the city accommodates more full-time public-safety employees and other positions as the economy grows. Property taxes were the largest general fund revenue source at 51% of expenditures, followed by sales taxes at 19% and permits and licenses at 9%. We expect the city will likely continue to post, at least, balanced results due to strong revenue growth and conservative budgeting. We also think the city will likely maintain reserves in-line with its informal target, and we do not expect any material pressure on liquidity.

Debt and liabilities

Per capita debt is high, in our view, albeit in-line with other peers experiencing rapid growth. Wolfforth plans to issue $16.1 million of additional new-money certificates in 2025 and another $2.75 million in fiscal 2026 to complete the remainder of its major water-infrastructure improvements. Due to rapid tax base growth and the expectation of the utility system servicing annual costs, we do not expect debt will likely decrease materially; however, current costs will likely not increase substantially. The city's privately placed series 2024 tax notes have standard bond provisions and do not constitute a contingent-liquidity risk.

We do not view pension and OPEB liabilities as an immediate credit pressure on the city because required contributions currently account for an affordable share of total governmental expenditures. In addition, net pension liability is very small on a per capita basis.

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Table 2

Wolfforth, Texas--key credit metrics	Most recent	2023	2022	2021
Economy				
Gross county product per capita as a % of U.S.	71.0	--	71.0	71.0
County per capita personal income as a % of U.S.	80.0	--	80.0	80.0
Market value ($000s)	886,596	587,994	497,320	434,493
Market value per capita ($)	143,904	95,438	88,982	80,701
Top 10 taxpayers as a % of taxable value	6.6	6.5	7.9	8.9
County unemployment rate (%)	3.3	3.3	3.4	4.5
Local median household effective buying income as a % of U.S.	130.0	128.0	118.0	113.0
Local per capita effective buying income as a % of U.S.	103.0	101.0	94.0	94.0
Local population	6,161	6,161	5,589	5,384
Financial performance				
Operating fund revenue ($000s)	--	6,919	6,430	5,216
Operating fund expenditures ($000s)	--	6,806	5,686	5,190
Net transfers and other adjustments ($000s)	--	45	577	6
Operating result ($000s)	--	158	1,321	32
Operating result as a % of revenue	--	2.3	20.5	0.6
Operating result three-year average (%)	--	7.8	8.6	(0.5)
Reserves and liquidity				
Available reserves as a % of operating revenue	--	37.6	38.4	22.0
Available reserves ($000s)	--	2,604	2,469	1,148
Debt and liabilities				
Debt service cost as % of revenue	11.3	11.3	14.8	9.3
Net direct debt per capita ($)	5,677	3,557	4,080	4,333
Net direct debt ($000s)	34,976	21,915	22,801	23,330
Direct debt 10-year amortization (%)	51.0	--	--	--
Pension and other postemployment benefit costs as a % of revenue	4.0	4.0	3.0	4.0
Net pension liabilities per capita ($)	279	279	170	177
Combined net pension liabilities ($000s)	1,722	1,722	951	954

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 27, 2024)		
Wolfforth tax and wtrwks and swr sys rev certs of oblig (Limited Pledge) ser 2021 dtd 11/15/2020 due 02/15/2041		
Long Term Rating	AA/Stable	Upgraded
Wolfforth tax nts		
Long Term Rating	AA/Stable	Upgraded

Ratings Detail (As Of September 27, 2024) (cont.)		
Wolfforth tax nts		
Long Term Rating	AA/Stable	Upgraded
Wolfforth GO rfdg bnds		
Long Term Rating	AA/Stable	Upgraded
Wolfforth GO (ltd pledge) (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Wolfforth GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.