S&P Global Ratings

RatingsDirect®

Summary:

Lago Vista, Texas; General Obligation

Primary Credit Analyst:
Stephen Doyle, New York + 1 (214) 765 5886; stephen.doyle@spglobal.com

Secondary Contact:
Sam Krouse, Austin (1) 214-871-1409; sam.krouse@spglobal.com

Table Of Contents

Summary:

Lago Vista, Texas; General Obligation

Credit Profile		
US$26.0 mil certs of oblig ser 2024 dtd 02/15/2024 due 02/15/2048		
Long Term Rating	AA/Stable	New
Lago Vista comb tax and ltd pledge rev certs of oblig ser 2014 dtd 08/01/2014 due 02/15/2035		
Long Term Rating	AA/Stable	Affirmed
Lago Vista GO		
Long Term Rating	AA/Stable	Affirmed
Lago Vista GO		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to the City of Lago Vista, Texas' approximately $26 million series 2024 certificates of obligation (COs).
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the city's GO debt and COs outstanding.
- The outlook is stable.

Security

The series 2024 certificates are a direct obligation of Lago Vista, payable from the proceeds of a continuing direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within its borders. The city's outstanding GO and CO issuances are also backed by this limited-tax pledge. A limited pledge, not to exceed $1,000, of surplus revenues from the city's water and sewer system additionally secures the series 2024 certificates and the outstanding certificates. Because of the limited nature of the additional pledged revenue, our ratings on these obligations reflect the city's ad valorem tax pledge.

State statutes limit the ad valorem tax rate for home-rule cities to $2.50 per $100 of taxable assessed valuation (AV) for all city purposes. The Texas attorney general permits the allocation of $1.50 of the $2.50 maximum tax rate for ad valorem tax debt service. Lago Vista's total levy is well below the maximum at 41 cents per $100 of AV, 11.5 cents of which is for debt service. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax debt and general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on the fungibility of resources, supporting our view of Lago Vista's overall ability and willingness to pay debt service.

Officials intend to use series 2024 certificate proceeds to fund street improvements, park improvements, public safety equipment, and improvements to the city's water and wastewater system.

Credit overview

Lago Vista is a growing city with a strong economy, very strong reserves, and a very weak debt profile. The 'AA' rating reflects these offsetting factors. The city's rapid growth during the pandemic is expected to moderate in the near term, reducing development-related revenues and likely weakening operating performance and reserve ratios compared with fiscal 2021 and fiscal 2022.

The city is located about 30 miles northwest of Austin, and its local economy is shifting from a tourism-based resort community to a more diverse one wherein residents live year-round. This change has increased commercial development that supports more permanent residents and new residents, which has doubled total assessed value over the past three years. We expect continued tax base growth, though likely not at the pace of the past two years, given ongoing residential and commercial developments, supporting at least stable economic metrics.

With over 25% of operating revenues related to ongoing economic development as fiscal 2022, operating performance is expected to be somewhat volatile over the next few years as development continues but at a slower pace. In addition, Lago Vista has discussed using a portion of its reserves to reduce future debt issuances and bring reserves closer to policy levels of 16%-25%. Overall, however, given the city's growing tax base and good financial management practices, we expect that management will make the necessary budget adjustments to maintain at least adequate budgetary performance outside of intentional reserve drawdowns. For fiscal 2023, the city's projections indicate an increase to reserves due to increasing ad valorem and sales taxes as well as less capital spending throughout the year. For fiscal 2024, the city adopted a balanced budget but could use a portion of reserves this year to offset reduced revenue and fund capital needs.

Lago Vista has plans for about a $27 million CO issuance within the next three years, so we believe its debt profile will remain elevated. We do not view the city's two privately placed debt obligations as a contingent liquidity risk as events of default are standard and the debt cannot be accelerated as per the bond terms.

The 'AA' rating also reflects our view of Lago Vista's:

- Very strong economy, with access to the Austin-Round Rock metropolitan statistical area and a diverse tax base;
- Trend of consistent positive operating performance supported by growing revenues and conservative budgeting that helps maintain very strong reserves well above a formal policy minimum;
- Strong management, with good financial management policies and practices that focus on conservative budget assumptions and reserve maintenance, with formal investment and debt policies and a capital improvement plan, though no formalized long-term planning beyond the budget is shared with council, and a strong institutional framework score score; and
- Very weak debt profile with additional plans, though manageable pension costs. (For more information on Texas' pension landscape, see "Pension Spotlight: Texas," published April 4, 2023, on RatingsDirect.)

Environmental, social, governance

We analyzed Lago Vista's environmental, social, and governance factors relative to the city's economy, management, financial measures, and debt and liability profile, and consider them neutral within our credit analysis.

Outlook

The stable outlook reflects our expectation that Lago Vista will maintain the city's very strong reserve position, supported by a growing local economy and good financial management practices and policies.

Downside scenario

We could lower the rating if budgetary performance weakens on a sustained basis, leading to a materially weakened financial position.

Upside scenario

Assuming all other credit factors remain stable or improve, we could raise the rating if economic metrics continue to improve alongside a moderation in debt levels and the adoption of enhanced financial management policies.

Lago Vista, Texas--Key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	130	138	136	129
Market value per capita ($)	301,944	123,904	123,904	114,414
Population (no.)		9,275	9,275	9,133
County unemployment rate(%)		4.1	4.1	6.4
Market value ($000)	1,310,840	1,149,206	1,149,206	1,044,945
Ten largest taxpayers % of taxable value	4.2	3.8	3.8	4.6
Adequate budgetary performance				
Operating fund result % of expenditures		17.1	0.7	(25.2)
Total governmental fund result % of expenditures		5.7	(1.2)	(4.8)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		65.4	55.2	64.9
Total available reserves ($000)		6,854	5,144	4,774
Very strong liquidity				
Total government cash % of governmental fund expenditures		239	201	178
Total government cash % of governmental fund debt service		1,141	889	649
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		18.1	18.5	20.8
Net direct debt % of governmental fund revenue	383			
Overall net debt % of market value	4.2			
Direct debt 10-year amortization (%)	50			
Required pension contribution % of governmental fund expenditures		3.5		
OPEB actual contribution % of governmental fund expenditures		0		

Lago Vista, Texas--Key credit metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023

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.