S&P Global Ratings

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Summary:

Port Lavaca, Texas; General Obligation

Primary Credit Analyst:
Karolina Norris, Dallas + 1 (972) 367 3341; Karolina.Norris@spglobal.com

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

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Summary:

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Credit Profile		
US$15.0 mil combination tax & rev certs of oblig ser 2024 due 02/15/2044		
Long Term Rating	AA-/Stable	New
Port Lavaca combination tax and rev certs of oblig		
Long Term Rating	AA-/Stable	Affirmed
Port Lavaca Comb Tax and Surplus harbor sys rev Certs of Oblig		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to Port Lavaca, Texas' proposed $15 million series 2024 combination tax and revenue certificates of obligation (COs).
- S&P Global Ratings also affirmed its 'AA-' long-term rating on the city's COs outstanding.
- The outlook is stable.

Security

The certificates are direct obligations of the city, payable from revenue from an ad valorem tax levied within the limits prescribed by law on all taxable property within the city. The 2024 and 2022 certificates are further secured by a limited pledge (not to exceed $1,000) of the surplus revenues from the city's waterworks and sewer system, while the 2018 certificates carry the same limited $1,000 pledge of the city's harbor system. Given the de minimis revenue pledges, we rate both obligations based solely on the city's ad valorem pledge.

State statutes limit the maximum ad valorem tax rate for home rule cities to $2.50 per $100 of taxable assessed valuation (AV) for all city purposes. In fiscal 2024, the city levies 78.1 cents per $100 of AV, with 8.2 cents dedicated for debt service.

We rate the certificates to be on par with our view of the city's general creditworthiness, as the taxing base supporting the obligations is coterminous with the city, and we see no unusual risks regarding the city's willingness to support the debt or the fungibility of resources.

Officials plan to use certificate proceeds to fund street, drainage, and sidewalk improvements. A portion could also be used to extend the sewer collection system to promote economic development.

Credit overview

The city's credit profile includes strong financial management and consistent track record of conservative budgeting that produced positive budget-to-actual variances and supported the city's maintenance of very strong reserves. Due to planned capital projects, fiscal 2022 ended with a general fund draw and management expects another draw in fiscal

2023 for one-time items but reserves remain well above levels required by formal policy. The strength of Port Lavaca's management and finances offsets a fairly weak-but-stable economy that continues to grow. The city's debt burden weakened but there are no near-term, tax-secured debt plans because the city uses cash to fund most of its capital needs.

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

- Stable tax base that continues to see some development but is exposed to short-term fluctuations stemming from hurricanes;
- Strong financial management policies and institutional framework score;
- Stable budgetary performance, with very strong liquidity and reserves that are well above management's formal target; and
- Very weak debt profile, with no immediate pension and other postemployment benefits (OPEB) pressures.

Environmental, social, and governance

We view the city's environmental physical risks as elevated given its location near the Gulf of Mexico, which could make it more susceptible to effects from severe storm events such as hurricanes or flooding, like Hurricane Harvey, which caused considerable damage. The city's ample reserves and good financial practices and policies somewhat mitigate these risks. We also assessed the city's social and governance risks relative to its economy, financial performance, management practices and policies, and debt burden, and view them as neutral in our credit analysis.

Outlook

The stable outlook reflects our view of Port Lavaca's solid financial metrics, supported by strong management practices, which we believe partially mitigate its exposure to weather events.

Downside scenario

We could lower the rating if the city experiences financial pressures that result in budgetary imbalance or a material decline in reserves on a sustained basis. We could also consider a negative rating action if the trend of population decline accelerates, affecting economic metrics and our forward-looking view of the city's finances.

Upside scenario

We could raise the rating if the city's wealth and income metrics improve to a level comparable with that of higher-rated peers, assuming no changes to other credit factors.

Credit Opinion

Limited but stable economy

The city encompasses 11 square miles and is the seat and commercial center of Calhoun County, 90 miles northeast of Corpus Christi and 125 miles southwest of Houston.

The city's economy is largely based on tourism, fishing, and marine construction. In addition, the area is served by three national railroads and the city operates the Harbor of Refuge, a commercial harbor. Many city residents work a few miles from the city at the Formosa Plastics plant, one of the county's largest employers.

Recent and pending developments include: 20 single-family homes and one duplex in the construction phase, and recently completed 24-unit and 12-unit apartment complexes; commercial additions such as fast-food restaurants, Prosperity Bank, and a T-Mobile store, and upcoming developments with another bank, a car wash, and a new industrial park. Outside city limits, notable developments that are expected to positively affect the local economy are a new Dow Chemical and X-energy nuclear power plants, and a rare earth processing facility Lynas Rare Earths, expected to be operational in 2027.

We expect the city's tax base will continue to grow modestly in the near term as a result of ongoing development, but we do not anticipate material changes to its wealth and income levels over the outlook horizon. Data shows recent and projected population declines at the county level. While Census estimates also indicate declines in the city's population, officials believe that certain population segments (second homeowners and migrants) are not reflected in the population counts and that ongoing modest residential construction supports their view that population is stable. We could revise our view of Port Lavaca's economy should population decline accelerate, which could affect our view of the city's financial flexibility.

Good financial management practices and policies

When preparing its budget, Port Lavaca uses a five-year analysis of fiscal trends, and the city receives updates on AV from the appraisal district.

The city's adopted financial policy requires it to adopt balanced budgets and limits any deficits to those resulting from one-time capital expenditures. Deficits are to be eliminated within two years through revenue or expenditure adjustments. The city council receives monthly financial highlight reports that provide budget-to-actual performance for overall expenditures and key revenue categories. In addition, Port Lavaca's finance committee, which meets at least quarterly, reviews detailed budget-to-actual reports.

A formal debt management policy dictates that long-term debt be issued only if capital projects cannot be financed from current revenue, and the city is to maintain a minimum 1.6x coverage on revenue debt. The policy also requires the city maintain a long-term capital improvement plan (CIP). The five-year rolling CIP identifies funding sources for all years. Because the city funds the majority of its capital needs from excess revenue or existing reserves, the CIP lists projects by fund from which they will be paid. By policy, the city is also to disclose any costs resulting from new projects that could affect future operations.

The city has a formal investment policy that follows state guidelines and prioritizes safety and liquidity, and management shares investment reports with the governing body quarterly.

A formal policy requires that a 120-day minimum unassigned fund balance be maintained in the general fund, and it includes a goal to maintain 180 days' expenditures in total general fund balance. If the unassigned fund balance is projected to fall below the policy levels, the city manager is to prepare a plan to restore reserves. This shall be accomplished within three years, unless doing so would result in hardship for the city, in which case, reserves are to be restored as soon as economic conditions allow.

The city does not maintain a long-term financial plan, but officials are planning to adopt one with the fiscal 2025 budget.

We note that Port Lavaca took steps to protect itself against cyber attacks. Its public utilities suffered a ransomware attack in 2020 that resulted in the city writing off about $500,000 in revenues and accounts receivables due to loss of data. The city has since increased its cyber-insurance coverage.

The institutional framework score for Texas municipalities is strong.

Very strong reserves that provide cushion against weather risks

After accounting for recurring transfers over the past three years and removing $2.4 million in planned capital spending in the general fund (fiscal 2022), the city posted essentially balanced operations. Officials budget conservatively, with revenues typically exceeding projections and expenditures coming in below budget.

Property taxes were the largest general fund revenue source in fiscal 2022, accounting for 45% of total revenue, followed by sales taxes (36%).

The city expects to reduce total general fund balance in fiscal 2023 by about $562,000 to $9.1 million, a draw that reflects funding about $1.1 million in one-time capital projects.

The fiscal 2024 budget is breakeven despite some capital expenses included. Officials plan to maintain at least 180 days in fund balance.

Given conservative budgeting practices and historically strong budgetary results, we anticipate the city will maintain strong performance and very strong reserves despite cash funding of capital project, in line with its policy, despite the planned draws.

Debt profile weakens following this issuance

Subsequent to this issuance, the city has no near-term plans to issue additional tax-backed debt. Port Lavaca has applied to the Texas Water Development Board for a $39 million revenue-backed loan to finance an expansion to its wastewater treatment plant. The expansion is required by the Texas Commission for Environmental Quality because of capacity constraints that limit future growth.

The city privately placed its series 2008 certificates of obligation, which are supported by its port fund. In addition, it entered into a contractual obligation to replace its water-meter system, secured by its GO pledge. The total par amount outstanding for the privately placed debt is $2.4 million, or 9% of total direct debt. The loan documents does not include any nonstandard events of default or remedies. Therefore, we do not consider this debt a contingent liquidity risk.

Pension and OPEB liabilities

We do not view pension and OPEB liabilities as an immediate credit risk.

The city participates in the Texas Municipal Retirement System, a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the state. The city had an asset of $578,000 as of Dec. 31, 2021, with a funded ratio of 104.50%, assuming a 6.75% discount rate.

The city offers no OPEB outside of a death benefit that can be eliminated by city council action.

Port Lavaca, Texas--key credit metrics				
	Most recent	**Historical information**		
		2022	2021	2020
Weak economy				
Projected per capita EBI % of U.S.	71.8			
Market value per capita ($)	61,395			
Population		11,787	11,954	12,134
County unemployment rate(%)		3.7		
Market value ($000)	723,666	623,175		
Ten largest taxpayers % of taxable value	13.2			
Adequate budgetary performance				
Operating fund result % of expenditures		-0.8	-7.6	-3.4
Total governmental fund result % of expenditures		-6.9	9.1	3.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		95.5	88.1	108.1
Total available reserves ($000)		8,762	9,368	10,715
Very strong liquidity				
Total government cash % of governmental fund expenditures		138.4	188.9	212.2
Total government cash % of governmental fund debt service		3,765.9	5,782.1	6,661.1
Strong management				
Financial Management Assessment	Good			
Very weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		3.7	3.3	3.2
Net direct debt % of governmental fund revenue	182.9			
Overall net debt % of market value	3.4			
Direct debt 10-year amortization (%)	45.4			
Required pension contribution % of governmental fund expenditures		2.0		
OPEB actual contribution % of governmental fund expenditures		0.2		
Strong institutional framework				

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

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