

# RatingsDirect®

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## Summary:

# Fort Worth, Texas; General Obligation

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## Summary:

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### Credit Profile

US\$138.45 mil gen purp rfdg and imp bnds ser 2021 dtd 06/01/2021 due 03/01/2041		
<i>Long Term Rating</i>	AA/Stable	New
US\$33.555 mil gen purp rfdg bnds taxable ser 2021 dtd 06/01/2021 due 03/01/2041		
<i>Long Term Rating</i>	AA/Stable	New
US\$15.47 mil comb tax and rev certs of oblig ser 2021 dtd 06/01/2021 due 09/01/2033		
<i>Long Term Rating</i>	AA/Stable	New
US\$15.02 mil tax nts ser 2021C dtd 06/01/2021 due 03/01/2028		
<i>Long Term Rating</i>	AA/Stable	New
Fort Worth GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA' rating to Fort Worth, Texas' \$138.5 million series 2021A general-purpose refunding and improvement bonds, \$33.6 million 2021B general-purpose taxable refunding bonds, \$15.5 million 2021 combination tax and revenue certificates of obligation, and \$15.0 million 2021C tax notes. At the same time, we affirmed our 'AA' long-term rating on the city's limited-tax general obligation (GO) debt outstanding. The outlook is stable.

Concurrently, the city is issuing water and sewer system revenue bonds of \$148.5 million, which are being rated separately.

The general-purpose bonds, certificates of obligation, and tax notes are payable from an annual 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 (AV) for all purposes, with the portion dedicated to debt service limited to \$1.50. The city's total tax rate is well below the maximum, at 74.8 cents, 15.3 cents of which is dedicated to debt service. Based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018, on RatingsDirect, we view the limited-tax GO debt pledge on par with the city's general creditworthiness. The ad valorem taxes are not levied on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service.

Proceeds from the series 2021A bonds will be used to fund various citywide projects, including street, park, and various facility improvements, and to current refund the city's 2011 and 2021A bonds and notes. Proceeds from the 2021B taxable bonds will be used to refund the city's 2013B and 2021B certificates of obligation and notes. The 2021 certificates of obligation will be used to fund tax-increment financing (TIF) improvements at the city's Trinity Lakes TIF district, and the 2021C tax notes will be used for fire equipment purchases and zoo and pool improvements.

## **Credit overview**

Despite early expectations for substantial negative implications, both economically and financially, Fort Worth has been able to weather the COVID-19 pandemic reasonably well. Most affected was the city's tourism department and consumer-related revenues such as hotel taxes and parking fees, although the net effect to revenues was fairly minimal, with sales taxes coming in better than projected and no major decreases to property tax receipts, the city's primary source of revenue. Valuations in the city continued to rise, propelled by continued development and expansion in the industrial and manufacturing sectors. The growth and strengthening of its economy in recent years, and subsequent increase in revenues has allowed Fort Worth to reduce its overall tax rate, build its reserves position, and allocate more funding to fixed costs, in particular for pensions. Continuing the trend of prior years, it managed to increase its general fund balance in fiscal 2020, ending the year much stronger than initially projected. As a result, reserves remain very strong, totaling 22% of expenditures at year-end. The city's strong finances are supported by sophisticated policies and planning mechanisms that are forward-looking and conservative. The stable rating outlook reflects our expectation that, even when considering poor pension funding and the potential for increased fixed costs, with operations remaining stable through the current budget year, Fort Worth's favorable reserve profile and thriving local economy will continue to provide additional near-term flexibility and lend stability to its overall credit profile.

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

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level in fiscal 2020, after adjusting for unfunded pension costs;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 109.1% of total governmental fund expenditures and 8.4x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability profile, with debt service carrying charges at 11.4% of expenditures and net direct debt that is 96.2% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

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

The rating also incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider social risk factors. Absent the implications of COVID-19, we consider the city's social risks to be in line with those of the sector. We also view environmental and governance risks as being in line with our view of the sector as a whole. We acknowledge the city's very strong management, with strong financial policies and practices as a positive factor as it relates to the city's overall creditworthiness.

## Stable Outlook

### Downside scenario

If the city is unable to make prudent and timely adjustments to its budget, and subsequent deterioration to budgetary performance, available reserves or cash are realized, we could lower the rating. We could also do so if its recent pension modifications do not show progress toward making the actuarially determined contribution (ADC), or if the net pension liability continues to grow.

### Upside scenario

We could raise the rating if the city's pension funded status improves significantly and it begins making its ADC, without reserve levels deteriorating, and it experiences continued economic improvement that results in economic metrics that are comparable with those of higher-rated peers, assuming all other rating factors improve or remain stable.

## Credit Opinion

### Adequate economy

We consider Fort Worth's economy adequate. The city, with a population of 882,013, is in Denton, Parker, and Tarrant counties in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income (EBI) of 84.0% of the national level and per capita market value of \$92,120. Overall, market value grew by 5.4% over the past year to \$81.3 billion in 2021.

Consistent tax base and population growth has helped Fort Worth continue to climb as one of the largest cities in the U.S. Its tourism department certainly took a hit in recent months as early COVID-19 restrictions forbade large gatherings and events; however, that trend has been shifting as the city continues to see signs of recovery, with an uptick in conferences and events being scheduled for the latter half of 2021. In addition, the pipeline for development remains strong, most notably in the industrial and manufacturing sectors. The city's local economy remains one of the most robust in the state, led by health care, professional services, the aerospace and defense-related industries, and construction, all of which have increasingly offset the region's cyclical energy sector and most recent significant decline in oil prices. The city is also a regional hub for higher education and financial services. Its taxable value mainly consists of single-family properties (52% of the total tax base), as well as commercial and industrial properties (33%). The top 10 taxpayers are diverse and make up only 6.5% of the total tax base.

Fiscal 2020 sales taxes were in line with 2019 and are expected to remain strong in 2021. While certain other revenues (public events, municipal parking, etc.) weakened in fiscal 2020, management projects modest returns to normal for each revenue stream and does not expect sustained decreases over the long-term. Unemployment at the county level peaked in April 2020 at 13.1%, but has since fallen to 6.9% (in March). (For more information on COVID-19's effect on the U.S. public finance sector, please see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021.) While the city has not yet fully returned to its pre-pandemic levels in terms of heightened economic activity, we believe that the majority of the negative effects of the COVID-19 pandemic have already been realized and that Fort Worth is well on its way to return to normal. Additionally, the city's per capita EBI is remaining slightly below national

medians; however, we believe this partially reflects the effects of the pandemic, and do not expect these levels to be sustained. Given the city's continued growth and development, even throughout the pandemic, we believe that our view of the local economy will remain at least adequate.

### **Very strong management**

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The budgeting process incorporates an analysis of past trends related to primary revenue and expenditure items; however, in our view, the city's practice of underfunding its pensions adds additional risk to potential future budget shortfalls. Management completes a comprehensive review of financial performance on a monthly basis and provides semi-annual reports on financial performance to the city council. The governing body is able to amend the budget at any time with council approval. As part of the budget process, management produces a five-year financial forecast to illustrate the long-term effect of current-year budget decisions. A formal investment policy, focusing on cash management and investment strategy, also exists; management reports results to the city council quarterly.

Adopted debt policies focus on the types of debt instruments officials can use, how much debt they can issue, and what type of structure they should use. Concerning reserves, the policy states management will strive to maintain an undesignated general fund balance equal to at least 10% of the current-year budget for operating and maintenance items, with a goal to reach 16% of expenditures. For capital planning, management is required to review its capital improvement needs and the city's infrastructure status annually. An adopted five-year capital improvement plan is annually produced and shows all projects and corresponding funding sources.

### **Adequate budgetary performance**

Fort Worth's budgetary performance is adequate, in our opinion. After including the full cost of the city's ADC, which it did not fund, the city had slight deficit operating results in the general fund of 0.7% of expenditures, and deficit results across all governmental funds 2.2% in fiscal 2020.

We adjusted for recurring revenues in and out of the general fund and other governmental funds, as well as for capital outlay expenditures funded through debt proceeds. We also adjusted expenditures to account for the difference between what the city contributed to its Employees' Retirement Fund and the ADC, which amount to an additional \$35 million of expenditures in fiscal 2020. In our view, if a local government is making annual contributions to its pension plan that are below actuarially determined levels, budgetary performance is likely overstated. Subsequently, this led to a net operating deficit of about \$5 million in the general fund and \$27 million across all governmental funds in fiscal 2020.

Prior to our adjustments, for fiscal 2020, the city posted a roughly \$31 million surplus in the general fund (after transfers), which was much better than the midyear anticipation for a similar decrease to fund balance. While revenues were down in fiscal 2020, primarily reflecting COVID-19-related effects mentioned above, expenditures were also substantially lower than budgeted due to strategic cost reductions and a hiring freeze implemented not long after the pandemic began. The final result also accounted for just under \$50 million in CARES Act funding that was received and spent within the fiscal year. The revenue base is diverse and has been historically stable, with property tax collections making up about 60% of general fund revenue, followed by sales taxes (23%) and franchise fees (7%) in

fiscal 2020. The city's continued trend of positive growth in revenues is expected to continue and should help partially offset the cost increases associated with its pension plan.

The city adopted a \$782 million balanced budget for fiscal 2021, albeit without fully funding the ADC, with management expecting to end in line with expectations, given current performance. Primary revenue sources are coming in on or above target, and expenditure savings are also occurring, coming partially from leftover effects from the prior year's hiring freeze, as well as other department salary savings. Preliminary expectations for fiscal 2022 are likely to be in line with the current year, with the expectation for continued recovery to key financial metrics; the 2022 budget will also include the next phase of pension reform implementation, which will account for increased employer contributions.

Based on actual results for fiscal 2020, as well as current tracking for fiscal 2021, management has established a strong ability to respond to potential financial pressures and manage the city's expenditures in a way that has helped it maintain operational balance, even in an uncertain economic and financial environment. Fort Worth has maintained its key fiscal metrics, and we expect that it will continue to do so; therefore, we expect our view of budgetary performance to remain steady over the near term.

### **Very strong budgetary flexibility**

Fort Worth's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 22% of operating expenditures, or \$157.2 million.

Fort Worth's available fund balance grew sizably in fiscal 2020, totaling \$157 million at year-end. Stable fiscal performance in 2020 supported the increase in available reserves, despite initial expectations for reserve draws caused by declines in revenues related to the spread of COVID-19. Available fund balance remains well above the city's formal 10% policy, as well as its 16% informal target. We expect the city's budgetary flexibility and reserve profile will remain very strong, given expectations for operational stability in the current and forthcoming budget years.

### **Very strong liquidity**

In our opinion, Fort Worth's liquidity is very strong, with total government available cash at 109.1% of total governmental fund expenditures and 8.4x governmental debt service in 2020. In our view, the city has exceptional access to external liquidity if necessary.

Fort Worth has, in our view, exceptional market access, having issued GO and utility revenue bonds and certificates of obligation on a frequent basis. Its \$1.3 billion in available cash and investments comply with Texas statutes and the city's internal investment policy. Fort Worth has historically had what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will materially weaken over the near term.

The city has four privately placed agreements and we do not consider the obligations as a contingent liquidity risk as there are no permissive covenants, acceleration provisions, or cross-default provisions that could result in an unanticipated call on liquidity. We do not anticipate significant deterioration in the city's cash position in the near term.

## **Very weak debt and contingent liability profile**

In our view, Fort Worth's debt and contingent liability profile is very weak. Total governmental fund debt service is 11.4% of total governmental fund expenditures, and net direct debt is 96.2% of total governmental fund revenue.

Revenue-backed debt supported through the city's enterprise fund has been adjusted in our direct debt-to-revenue calculations. Following the sale of the current issuances, Fort Worth will have \$166.3 million of authorized but unissued debt remaining, all of it from the city's nearly \$400 million 2018 bond program that was approved by voters in May 2018. As part of this remaining amount, the city anticipates issuing approximately \$166 million to support ongoing capital, as well as an additional \$17 million of GO tax notes for fire equipment within the next two years. Given future debt plans, we expect Fort Worth's debt profile to remain very weak over the near-to-medium term.

### **Pensions and other postemployment benefits**

In our opinion, a credit weakness is Fort Worth's large pension and OPEB obligation. Despite recent plan changes in early 2019, we do not anticipate material improvements in plan funded status within the near-term. Fort Worth's combined required pension and actual OPEB contributions totaled 14.9% of total governmental fund expenditures in 2020.

Fort Worth provides benefits to its employees via the following plans:

- Employee's Retirement Fund of the City of Fort Worth: 50.1% funded at a measurement date of Sept. 30, 2020, 78% contribution as a percentage of ARC in 2020, 12.9% pension ARC as a percentage of expenditures.
- OPEB health care: 8.2% funded ratio, OPEB pay-as-you-go contribution 2.0% as a percentage of expenditures in 2020.

At fiscal year-end, the plan's overall funded status remained weak, at 50.1%, and contributions fell short of our minimum and static funding progress metrics, indicating that unfunded liabilities continue to grow. Contributions to the city's pension plan are statutorily defined and have been well below the ADC in recent years. We note, however, that the city has taken steps to address the underfunded status of its pension obligations, including provisions to increase employee and employer contributions when certain risk sharing measures are triggered. Should the funded ratio fail to improve, management indicated that provisions could be triggered in the near term, which should have a positive effect on the plan's funded status over the longer term. Aside from its pension benefits, Fort Worth provides certain OPEBs for retired employees. The city discontinued them for employees hired after 2008. At Sept. 30, 2020, the OPEB liability was \$971 million, up from \$791 million in the previous year.

## **Strong institutional framework**

The institutional framework score for Texas municipalities is strong.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of May 26, 2021)		
Fort Worth GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Fort Worth GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Fort Worth GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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