

Rule 15c2-12 Filing Cover Sheet

Issuer Name: City of Kennedale, Texas

Issues: \$4,500,000 Combination Tax and Revenue Certificates of Obligation, Series 2008
\$2,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2010
\$3,260,000 Combination Tax and Revenue Certificates of Obligation, Series 2011

Filing Format electronic SM paper; If available on the Internet, give URL: emma.msrb.org

CUSIP Numbers to which the information filed relates (optional):

Nine-digit number(s) (attach additional sheet if necessary):

Six-digit number if information filed relates to all securities of the issuer: 489332/489352

* * *

Description of Listed or Material Event

- 1. _____ Principal and interest payment delinquencies
- 2. _____ Material non-payment related defaults
- 3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
- 4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
- 5. _____ Substitution of credit or liquidity providers, or their failure to perform
- 6. _____ Adverse tax opinions or events material affecting the tax status of the security
- 7. _____ Material modifications to rights of security holders
- 8. _____ Material bond calls or tender offers
- 9. _____ Defeasances
- 10. _____ Material release, substitution, or sale of property securing repayment of the securities
- 11. Rating changes
- 12. _____ Issuer bankruptcy, insolvency, receivership or similar event
- 13. _____ Material merger, consolidation, or acquisition of issuer or sale issuer asset sale
- 14. _____ Material substitution or change in paying agent
- 15. _____ Notice of non-compliance (specify): _____
- 16. _____ Other material event or information (specify): _____

Financial & Operating Data Disclosure Information

- Annual Financial Report or CAFR
- Financial Information & Operating Data
- Other (describe) _____

Fiscal Period Covered: _____
 Monthly Quarterly Annual Other: _____

* * *

I hereby represent that I am authorized by the Issuer or its agent to distribute this information publicly:

Name: Mark M. McLiney Title: Senior Managing Director
Employer: SAMCO Capital Markets, Inc.
Voice Telephone Number: 210-832-9760
Email Address: mmcliney@samcocapital.com

NOTICE OF MATERIAL EVENT
(Pursuant to S.E.C. Rule 15c2-12)

Dated: January 17, 2017
Due: January 27, 2017

City of Kennedale
405 Municipal Drive
Kennedale, Texas 76060

Pertaining to:

\$4,500,000 Combination Tax and Revenue Certificates of Obligation, Series 2008
\$2,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2010
\$3,260,000 Combination Tax and Revenue Certificates of Obligation, Series 2011

This Notice is being provided by the City of Kennedale (the *Issuer*), pursuant to the requirement of Rule 15c2-12 (the *Rule*) of the Securities Exchange Act of 1934, as notification of the occurrence of the following event, as specified in paragraph (b)(5)(i)(C) of the Rule, pertaining to the captioned series of obligations (the *Obligations*).

On January 17, 2017, S&P Global Ratings upgraded the City's combination tax and revenue certificates of obligation outstanding. See attached Rating Report.

The information in this Notice is provided solely to comply with the Issuer's contractual commitment to provide notice of the occurrence of specified events (and/or notice of the Issuer's failure to timely comply with that obligation). This Notice is not made by the Issuer in connection with a purchase or sale of bonds and accordingly is not intended to contain all information material to a decision to purchase or sell bonds.

* * *

RatingsDirect®

Summary:

Kennedale, Texas; General Obligation

Primary Credit Analyst:

Karolina Norris, Dallas 972-367-3341; Karolina.Norris@spglobal.com

Secondary Contact:

Ann M Richardson, Dallas (214) 765-5878; ann.richardson@spglobal.com

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Summary:

Kennedale, Texas; General Obligation

Credit Profile

Kennedale GO (AGM)

Unenhanced Rating

AA-(SPUR)/Stable

Upgraded

Kennedale GO (ASSURED GTY)

Unenhanced Rating

AA-(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its underlying rating (SPUR) to 'AA-' from 'A+' on Kennedale, Texas' series 2008, 2010, and 2011 combination tax and revenue certificates of obligation outstanding. The outlook is stable.

The rating action reflects our view of the city's improved financial performance and flexibility.

The certificates are payable from revenue from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city and surplus revenue of the city's combined utility system. State statutes limit the maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation for all city purposes. Administratively, the attorney general of Texas will permit the allocation of \$1.50 of the \$2.50 maximum tax rate for ad valorem tax debt service. In fiscal 2017, the city is levying 76.75 cents, of which 18.58 cents is dedicated to debt service. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit.

The rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2015, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 29% of total governmental fund expenditures and 1.9x governmental debt service, and access to external liquidity we consider strong, but an exposure to a nonremote contingent liability risk;
- Weak debt and contingent liability position, with debt service carrying charges at 15.1% of expenditures and net direct debt that is 136.0% of total governmental fund revenue, but rapid amortization, with 84.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Kennedale's economy strong. The city, with an estimated population of 7,045, is located in Tarrant County in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 113% of the national level and per capita market value of \$70,754. Overall, the city's market value grew by 3.7% to \$498.5 million in 2015. The county unemployment rate was 4.2% in 2015.

The city is approximately 12 miles southeast of Fort Worth and is considered its suburb. Located along a major highway, the city also has easy access to Dallas, which lies 33 miles northeast of Kennedale, as well as the Dallas-Fort Worth International Airport, which is approximately 30 miles away. Kennedale's convenient location has contributed to steady population growth and ongoing economic activity. Officials report that pending developments include single- and multifamily residences, a couple of new restaurants, and a hotel, all in various stages of construction.

While the residential and commercial sectors are expanding, market value has declined modestly in three of the past five fiscal years as a result of decreasing mineral values, which currently account for approximately 6% of total market value. The top 10 taxpayers are diverse, accounting for around 14% of market value. We note that the city has recently lost one of its largest taxpayers, Goss International Americas Inc., a printing press manufacturer.

Despite the declines in mineral values and the loss of one of the city's largest taxpayers, we expect that ongoing economic development will support relative stability in the city's tax base, and we don't anticipate material changes to the city's key economic credit fundamentals over the next two years.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

Officials use a three-year rolling average for revenue and expenditure assumptions. The budget can be amended as needed. The council receives monthly budget-to-actual reports. The city implemented a five-year rolling capital improvement plan and identifies funding sources on an annual basis. Investment performance and holdings are reported quarterly, per the city's formalized investment management policy. The city adopted a reserve policy requiring a minimum 18% of general fund expenditures to be held in reserve to ensure fund availability for unforeseen emergencies. Kennedale has adopted a basic debt management policy, but lacks formal policies related to long-term financial planning.

Adequate budgetary performance

Kennedale's budgetary performance is adequate in our opinion. The city had operating surpluses of 7.5% of expenditures in the general fund and 5.6% across all governmental funds in fiscal 2015. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2015 results in the near term.

Major general fund revenue sources in fiscal 2015 were property taxes (43% of revenue), followed by sales taxes (20%) and franchise taxes (12%). Public safety expenditures accounted for nearly 63% of total general fund expenditures, followed by general government expenditures (18%).

The city's fiscal 2016 budget called for a 2.2% general fund deficit, but preliminary results indicate a 5.9% surplus,

which would increase the fund balance to approximately 29% of expenditures. The city budgeted for a 6.5% deficit in the general fund for fiscal 2017, mainly as a result of the purchase of new vehicles and equipment, as well as a street project. This would reduce reserves to 19% of budgeted expenditures. The city may use general fund resources to fund additional projects beyond fiscal 2017, but it does not expect to draw reserves down to less than the official target of 18% of expenditures.

Very strong budgetary flexibility

Kennedale's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 25% of operating expenditures, or \$1.7 million.

We expect the city's flexibility will remain very strong over the next two years. However, use of reserves beyond fiscal 2017 could reduce available fund balance to less than very strong levels, changing our view of the city's flexibility.

Very strong liquidity

In our opinion, Kennedale's liquidity is very strong, with total government available cash at 29% of total governmental fund expenditures and 1.9x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary. Weakening Kennedale's liquidity position, in our assessment, is the city's exposure to a nonremote contingent liability that could come due within 12 months.

The city's strong access to external liquidity is demonstrated through its access to the market and issuance of GO bonds over the past 20 years. The city has historically had what we consider very strong cash balances, and given our expectations for fiscal years 2016 and 2017 we do not believe its cash position will worsen. All of the city's investments comply with Texas statutes and the city's investment policy. At fiscal year-end 2015, the city's investments consisted of cash deposits, investments in state pools, and federal securities. A portion of the city's debt has been privately placed. Legal terms are standard and do not contain any unusual provisions, such as acceleration, that could pressure the city's liquidity.

Weak debt and contingent liability profile

In our view, Kennedale's debt and contingent liability profile is weak. Total governmental fund debt service is 15.1% of total governmental fund expenditures, and net direct debt is 136.0% of total governmental fund revenue.

Approximately 84.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city plans to issue approximately \$2 million of new debt in the next two years to fund a portion of its capital needs.

Kennedale's pension contributions totaled 5.5% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

The city contributes to a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Under state law governing the TMRS, an actuary determines the contribution rate annually. Using updated reporting standards in accordance with Governmental Accounting Standard Board Statement Nos. 67 and 68, the city recorded a net pension liability of \$1.7 million as of Dec. 31, 2014, the most recent actuarial valuation date. The plan reported a funded ratio of 73.2%.

The city contributes to the cost-sharing, multi-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). Coverage is provided to both current and retired employees. Retired employees are insured for \$7,500; this coverage is an other postemployment benefit. The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our anticipation that the rating will not change over the two-year outlook horizon. We anticipate that Kennedale will maintain its very strong budgetary flexibility and liquidity. We anticipate no major changes in the tax base, market value, or income levels that would change the city's underlying economic strength.

Upside scenario

A higher rating is possible if the city's economic metrics improved and if the city further strengthened its management practices related to financial planning and debt.

Downside scenario

We could lower the rating if budgetary performance deteriorates and available fund balance declines to a level we consider strong.

Related Research

2016 Update Of Institutional Framework For U.S. Local Governments

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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