

August 8, 2023

City of Kennedale  
405 Municipal Drive  
Kennedale, TX 76060  
Attention: John Horton, Director of Finance

Re: ***US\$17,400,000 City of Kennedale, Texas, (A political subdivision of the State of Texas located in Tarrant County, Texas), Combination Tax and Revenue Certificates of Obligation, Series 2023, dated: August 01, 2023, due: February 01, 2043***

Dear John Horton

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA-". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Please send hard copies to:  
S&P Global Ratings  
Public Finance Department  
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New York, NY 10041-0003

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cc: *Mark McLiney*  
*Peggy Kilborn*  
*Tom Spurgeon*

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## Summary:

# Kennedale, Texas; General Obligation

### Primary Credit Analyst:

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## Summary:

# Kennedale, Texas; General Obligation

### Credit Profile

US\$17.4 mil combination tax and rev certs of oblig ser 2023 dtd 08/01/2023 due 02/01/2043

<i>Long Term Rating</i>	AA-/Stable	New
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Kennedale comb tax & rev certs of oblig

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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### Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the City of Kennedale, Texas' approximately \$17.4 million series 2023 combination tax and revenue certificates of obligation.
- At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the city's previously issued general obligation (GO) bonds and certificates of obligation.
- The outlook is stable.

### Security

Kennedale's GO bonds and certificates of obligation are payable from the proceeds of a continuing, direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within the city limits. The 2023 certificates of obligation are additionally secured by surplus revenues of the waterworks and sewer system. Given the limitation of the surplus revenue pledges, the certificates are rated based on the city's ad valorem tax pledge. The maximum allowable ad valorem tax 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 total tax rate in fiscal 2023 is well below the maximum, at 56.9 cents, 13.7 cents of which is dedicated to debt service.

Bond proceeds will fund various water and sewer system and street improvements.

### Credit overview

Kennedale is a suburb of Fort Worth and its location along a major highway has contributed to steady population growth and ongoing economic activity. Single-family and multifamily residential developments are actively adding to the tax base and officials noted numerous new retail and restaurants have opened and more are planned. Based on the historical average, officials anticipate at least 5% annual tax base growth for the next two years.

Kennedale has a formal general fund reserve policy to maintain 18% to 25% of general fund expenditures. The fund balance, in fiscal 2022, was equal to 25.4% of expenditures despite a one-time prior period adjustment to the beginning fund balance. The adjustment of \$397,092 was to account for sales tax revenues, from a prior year, that needed to be allocated to the economic development fund rather than the general fund. Without a \$611,877 unbudgeted capital outlay, the general fund would have had a 3.7% surplus. Kennedale's general fund has a 10-year history of mixed year-end financial results with mostly small deficits or surpluses each year and a fund balance that hovers at about

30% of expenditures.

Although early projections for fiscal 2023 indicated there could be an operating deficit, the general fund is likely going to break even or reflect a surplus given that property tax and sales tax collections are currently tracking ahead of budget.

The budget for fiscal 2024 includes spending ARPA funds for capital, a 3% wage increase, and the addition of three new employees but it is expected to be balanced with no use of reserves. Should structural imbalance between revenues and expenditures emerge, reflected in year-end deficits and declining reserves, there could be downward pressure on the rating. Given the current available fund balance and positive economic growth, Kennedale is currently consistent with similarly rated peers.

The city has privately placed several of its tax notes outstanding. However, legal provisions do not contain events of default or acceleration clauses that could pressure the city's liquidity. Kennedale could issue up to \$20 million in 2024 for various capital improvements but the amounts and authorizations are still under consideration.

The rating further reflects our view of Kennedale's:

- Participation in the Dallas-Forth Worth broad and diverse metropolitan statistical area.
- Standard financial policies and practices under our Financial Management Assessment methodology that include monthly budget-to-actual reports and formal investment and reserve policies. The city manager and finance director have been hired within the last year and they have plans to develop a long-term financial forecast. The institutional framework score for Texas cities is strong.
- Strong general fund reserves totaling \$2.3 million and equal to 25.4% of general fund expenditures in fiscal 2022.
- Weak debt burden, but in line with state-level peers and not expected to worsen with additional medium-term debt plans given rate of amortization and tax base growth. Pension costs are manageable and there are no other postemployment benefit liabilities.

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

We have analyzed Kennedale's environmental, social, and governance factors relative to the city's economy, finances, and debt and have determined that all are neutral in our credit analyses.

## **Outlook**

The stable outlook for Kennedale reflects our view that the economy is growing and it will contribute to stable revenues and general fund reserves that support the current rating.

### **Upside scenario**

All else equal, we could raise the rating if the city demonstrates stability in financial performance and available reserves while, at the same time, strengthening financial practices and policies.

**Downside scenario**

We could lower the rating if budgetary flexibility weakens due to consistently weak budgetary performance, or if the economy were to weaken compared to peers.

Kennedale, Texas--key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	107.3			
Market value per capita (\$)	118,126.6			
Population		8,181	8,149	8,035
County unemployment rate(%)		3.6		
Market value (\$000)	966,394	830,706	761,161	
Ten largest taxpayers % of taxable value	8.8			
<b>Adequate budgetary performance</b>				
Operating fund result % of expenditures		3.7	0.1	5.7
Total governmental fund result % of expenditures		3.0	11.9	10.0
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		25.4	29.9	36.6
Total available reserves (\$000)		2,348	2,949	2,955
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		172.7	102.4	85.6
Total government cash % of governmental fund debt service		995.7	653.2	492.5
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		17.3	15.7	17.4
Net direct debt % of governmental fund revenue	239.5			
Overall net debt % of market value	4.5			
Direct debt 10-year amortization (%)	49.9			
Required pension contribution % of governmental fund expenditures		5.3		
OPEB actual contribution % of governmental fund expenditures		--		
<b>Strong institutional framework</b>				

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed

*Summary: Kennedale, Texas; General Obligation*

to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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