

RatingsDirect®

Summary:

Kennedale, Texas; General Obligation

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Credit Profile

Kennedale comb tax & rev certs of oblig

Long Term Rating AA/Stable Upgraded

Kennedale GO (AGI)

Unenhanced Rating AA(SPUR)/Stable Upgraded

Kennedale GO (AGI)

Unenhanced Rating AA(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings raised its underlying and long-term ratings to 'AA' from 'AA-' on the City of Kennedale, Texas' general obligation (GO) bonds and certificates of obligation (COs) outstanding, and removed the ratings from Under Criteria Observation.
- The outlook is stable.
- The upgrade reflects our view of the city's ongoing tax base and economic growth and positive operating performance that has improved available reserves, based on our "Methodology For Rating U.S. Governments," criteria, published Sept. 9, 2024, on RatingsDirect.

Security

Kennedale's GO bonds and COs 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 COs are additionally secured by surplus revenue of the waterworks and sewer system. Given the limitation of the surplus revenue pledges, the COs are rated based on the city's ad valorem tax pledge. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax debt and its general creditworthiness because the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which support our view of the city's overall ability and willingness to pay debt service.

Credit overview

Our view of Kennedale's general creditworthiness reflects its consistently positive operating performance, which is supported by ongoing economic and tax base growth, and conservative budgeting, with these strengths offset by a somewhat elevated debt profile. The 'AA' rating also incorporates our view of the city's available reserves, which although improved, are both lower on a percentage basis and smaller nominally compared with those of similarly rated peers.

Kennedale is a suburb of Fort Worth and its location along a major highway has contributed to steady population growth and ongoing economic activity. This growth has helped contribute to four consecutive operating surpluses,

with positive operating results expected for fiscal 2024, as well. While the city has budgeted for a \$537,025 deficit in fiscal 2025 because of implemented pay increases, we expect its operating performance will generally be positive, given its quick return to positive performance under its long-range financial plan and history of outperforming budgeted figures. Although the city's debt profile is somewhat elevated, it is in-line with that of similarly rated Dallas-Fort Worth area peers.

Credit fundamentals supporting the 'AA' rating include:

- The city's location within the Dallas-Fort Worth metropolitan statistical area (MSA), which has contributed to its strong growth trends and supports its above-average income metrics.
- Consistently positive operating performance, with property taxes (54% of general fund revenue) benefiting from a growing primarily residential tax base and sales tax collections (21% of general fund revenue) getting a boost from online sales activity.
- Available reserves that have steadily increased, with management's goal to improve and maintain them at 33% of expenditures.
- Conservative budgeting practices and regular budget monitoring, supported by basic financial policies and financial forecasting. While the city does not have a formal capital improvement plan or debt management policy, management indicates it is working on developing both.
- Somewhat elevated debt burden, although pension and other postemployment benefits (OPEBs) are not an immediate budgetary pressure given the adequate pension funding status and limited OPEB liability.
- For more information on our institutional framework assessment for Texas municipalities, see "Institutional Framework Assessment: Texas Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

The city's environmental, social, and governance factors are neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that ongoing economic growth will support generally positive operating performance and allow the city's available reserves to increase and keep pace with budget growth.

Downside scenario

We could lower the rating if the city's available reserves significantly decline because of persistent operating deficits or capital spending, or if additional debt were to significantly outpace economic growth.

Upside scenario

We could raise the rating if available reserves increase to levels commensurate with those of higher rated peers, and additional debt does not outpace tax base growth.

Credit Opinion

Economy

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- and multifamily residential development and value appreciation has generated strong assessed value (AV) growth in recent years, with the city averaging over 11% annual AV increases the past five years. Officials indicate that there are no notable housing developments underway, but several commercial and warehouse developments and infill residential projects should contribute to further AV increases. While we expect the tax base and local economy will continue to expand, we do not expect any significant changes to the city's income metrics or economic profile over the outlook period.

Financial performance, reserves, and liquidity

Kennedale's tax base growth has helped contribute to general fund surpluses in each of the last four audited fiscal years, with fiscal 2024 year-end projections showing another surplus. For fiscal 2025, the city adopted a general fund budget deficit of \$537,025 because of implemented pay increases. Its financial forecast, which assumes annual property and sales tax revenue growth of 5% and 1.75%, respectively, shows the city returning to balanced operations in fiscal 2026 and surplus operations thereafter. Given its history of outperforming budgeted figures, and quick forecast return to balanced operations under revenue assumptions we believe are reasonable, we expect operating performance will generally be positive over the outlook period.

The city has four privately placed debt obligations outstanding. We do not view the obligations as contingent liquidity risks, as legal provisions do not contain events of default or acceleration clauses. We expect the city's liquidity will remain very strong over the outlook period.

Management

Kennedale's budgetary assumptions are built on historical data and forward-looking trends, with a track record of actual results outperforming budgetary figures. The city also has sufficient budgetary monitoring with budget-to-actual reports provided to the council monthly and an ability to amend the budget throughout the year, if needed. It maintains a five-year general fund forecast that helps inform budgetary decisions, and while it does not have a long-term capital plan, management indicates one is being developed. Although the city does not have a formal debt management policy, it maintains an investment management policy and reports holdings and earnings to the council quarterly. It has also adopted a formal reserve policy of 18% of expenditures in reserve, with an informal goal to improve and maintain reserves at 33% of expenditures. Management has also adopted policies and practices aimed at mitigating the city's exposure to cyber-security risks.

Debt and liabilities

Kennedale has about \$40 million in total direct debt outstanding. Although the city's debt burden is somewhat elevated, it is in line with that of similarly rated Texas peers. It does not have any immediate additional debt plans but is working on a comprehensive street improvement plan. We anticipate the city will issue additional debt in the near future once this comprehensive plan is complete, but we do not expect a material change in its debt profile given expected AV growth and the city's average amortization rate.

We do not view the city's pension and OPEB costs as an immediate source of budgetary pressure, as the city's pension plan is well-funded and the OPEB liability is limited. However, when factoring in our minimum funding progress metrics, the city's cost for debt and liabilities is consistently above 20% of revenue.

The city participates in the following plans:

- Texas Municipal Retirement System (TMRS), with an 82.9% funded ratio using a 6.75% discount rate and a net pension liability of \$4 million.
- Supplemental Death Benefits Fund, which provides group-term life insurance benefits to active and retired members of the TMRS pension plan. The plan is funded on a pay-as-you-go basis and has a total OPEB liability of \$207,728.

For more information, see "Pension Spotlight: Texas," published April 4, 2023, on RatingsDirect.

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Table 2

Kennedale, Texas--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	91	--	91	89
County PCPI % of U.S.	94	--	94	93
Market value (\$000s)	1,264,897	966,394	830,706	761,161
Market value per capita (\$)	142,267	108,694	101,541	93,405
Top 10 taxpayers % of taxable value	11.5	8.8	8.9	8.9
County unemployment rate (%)	3.8	3.7	3.7	5.3
Local median household EBI % of U.S.	123	119	113	117
Local per capita EBI % of U.S.	101	107	102	102
Local population	8,891	8,891	8,181	8,149
Financial performance				
Operating fund revenues (\$000s)	--	10,748	9,568	9,880
Operating fund expenditures (\$000s)	--	9,557	9,227	9,873
Net transfers and other adjustments (\$000s)	--	114	--	--
Operating result (\$000s)	--	1,305	341	7
Operating result % of revenues	--	12.1	3.6	0.1
Operating result three-year average %	--	5.3	3.0	1.1

Table 2

Kennedale, Texas--Key credit metrics (cont.)				
	Most recent	2023	2022	2021
Reserves and liquidity				
Available reserves % of operating revenues	--	31.0	24.5	29.8
Available reserves (\$000s)	--	3,336	2,348	2,949
Debt and liabilities				
Debt service cost % of revenues	--	14.2	16.8	14.0
Net direct debt per capita (\$)	6,559	3,231	1,645	1,187
Net direct debt (\$000s)	58,314	28,726	13,460	9,675
Direct debt 10-year amortization (%)	61	--	--	--
Pension and OPEB cost % of revenues	--	5.0	5.0	5.0
NPLs per capita (\$)	--	455	102	190
Combined NPLs (\$000s)	--	4,049	834	1,550

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

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