

**Summary:**

**Shenandoah, Texas; General  
Obligation**

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### Credit Profile

US\$2.875 mil GO rfdg bn ds ser 2019 dtd 06/15/2019 due 08/15/2031

<i>Long Term Rating</i>	AA+/Stable	New
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Shenandoah comb tax & rev certs of oblig ser 2009 dtd 09/15/2009 due 08/15/2010-2024

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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#### Shenandoah GO

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings assigned its 'AA+' rating to the City of Shenandoah, Texas' series 2019 general obligation (GO) refunding bonds. S&P Global Ratings also affirmed its 'AA+' long-term rating and underlying rating on the city's existing debt. The outlook is stable.

## Security

The bonds are direct obligations of the issuer payable from a continuing and direct annual ad valorem tax levied against all taxable property in the city, within the limits prescribed by law. Shenandoah currently levies a tax rate of 17.99 cents per \$100 of assessed value (AV), which is well-below the state cap of \$1.50 per \$100 of AV. Based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018), we view the limited-tax GO 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. Officials plan to use bond proceeds to refinance a portion the city's existing GO debt for present value savings.

The existing certificates of obligation are further secured by and payable from a limited surplus pledge (not to exceed \$1,000 for the series 2008 certificates) of the net revenues of the city's waterworks and sewer system. However, due to the limited pledge for the series 2008 certificates and lack of legal protections in place on the series 2009 certificates, we rate to the strength of the limited-tax GO pledge for both of the aforementioned series.

## Credit overview

The city has experienced healthy property tax revenue and sales tax revenue growth due to ongoing development and overall desirable location north of the Houston metroplex and near the Woodlands. Due in part to the small population base, the city's wealth and income indicators are extremely high. Shenandoah's reserves have improved to an extremely high level, though will likely be spent down for capital needs in the near term. Overall, the city has exhibited a solid history of maintaining strong budget performance and very strong budget flexibility, which we view as

imperative at the current rating level for issuers whose primary general fund revenue source is economically sensitive.

The rating reflects our view of Shenandoah's:

- Very 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;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 90% of operating expenditures;
- Very strong liquidity, with total government available cash at 85.9%total governmental fund expenditures and 4.3x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 20.1% of expenditures and net direct debt that is 273.6% of total governmental fund revenue; and
- Strong institutional framework score.

### **Very strong economy**

We consider Shenandoah's economy very strong. The city, with an estimated population of 2,990, is located in Montgomery County in the Houston-The Woodlands-Sugar Land MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 261% of the national level, which we view as extremely high and a positive credit factor and per capita market value of \$371,829. Overall, the city's market value grew by 17.7% over the past year to \$1.1 billion in 2019. The county unemployment rate was 4.3% in 2017.

Shenandoah is about 30 miles north of Houston, near The Woodlands. The city was once a small residential community but has since developed a deep commercial base, primarily due to its access to Interstate 45 and the rapidly growing population of nearby cities, such as The Woodlands.

Accordingly, in further support of the retail anchors in the city, three out of the top 10 taxpayers are related to commercial shopping centers whereas the remainder are a mix of medical or commercial entities. Furthermore leading employers within the city comprise:

- Conroe Independent School District (3,684);
- Memorial Hermann Hospital (2,404);
- Health South (360); and
- Kroger Regional Offices (141).

According to officials, Shenandoah's residential areas are nearly built out and, since 2015, the city has developed three new residential areas and has additional retail and commercial development under way. We believe that the new development has driven the city's strong AV growth in recent years and, based on trends in building permit fees, we anticipate that property growth will continue to thrive in the near term.

### **Adequate management**

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

We believe Shenandoah engages in conservative budgetary planning and capital planning, with what we consider conservative underlying assumptions such as revenue and expenditure growth, funding sources identified annually capital equipment or projects, and effects on future budgets. Management reviews the city's current-year budget and investments monthly, and reports the results to the city council in writing. While Shenandoah has not adopted a formal policy, the city maintains an informal target to maintain a general fund balance above 90 days of operating expenditures in reserves, which it currently exceeds.

### **Strong budgetary performance**

Shenandoah's budgetary performance is strong in our opinion. The city had operating surpluses of 17% of expenditures in the general fund and of 9.1% across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2018 results in the near term.

Shenandoah has historically maintained strong budgetary performance, indicated by surplus operations in both the general fund and total governmental funds in two of the past three audited years. We have made adjustments for recurring transfers in and out of the general fund. We have also adjusted for recurring transfers into the governmental funds revenues and adjusted out one-time capital expenditures funded with bond proceeds. During fiscal 2018, the city's primary general fund revenue sources consist of sales taxes (72%), property tax (9%), and intergovernmental revenues (6%). Sales tax revenue has increased 20% since 2014 to a total of \$6.7 million in 2018.

The fiscal 2019 budget is trending on track with the exception of a favorable variance in year-to-date sales tax revenues trending \$100,000 more than the same period in the previous year. The city intends to achieve a surplus despite budgeting one-time use of reserves of \$1.5 million for fiber optic infrastructure. Year-to-date performance reflects stronger actual sales tax and property tax revenue trends compared to budget assumptions. We believe Shenandoah's budgetary performance will remain at least strong based on the city's historically conservative budget assumptions.

### **Very strong budgetary flexibility**

Shenandoah's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 90% of operating expenditures, or \$7.6 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

During the past three fiscal years, Shenandoah has grown available reserves to 90% of recurring expenditures from 52% of expenditures in fiscal 2016 with the support of consecutive general fund surpluses. Although city officials have not adopted a formal reserve policy, the city has an informal goal to maintain at least 90 days of operating expenditures in reserves. Due to city's available fund balance well in excess of this informal target, we expect future drawdowns for capital projects could potentially bring available reserves below 75% of expenditures. However, based on projected and budgeted results management has provided, we believe the city will maintain the fund balance above the reserve target, resulting in sustained very strong budgetary flexibility.

### **Very strong liquidity**

In our opinion, Shenandoah's liquidity is very strong, with total government available cash at 85.9% total governmental fund expenditures and 4.3x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We believe Shenandoah has what we consider strong access to external liquidity, because it has frequently issued tax-backed bonds, including GO bonds and certificates of obligation during the past 20 years. The city's investments are not aggressive in our view, and primarily consist of TexPool investments. In addition, the city does not have any contingent liabilities that could dilute its very strong liquidity position.

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

In our view, Shenandoah's debt and contingent liability profile is very weak. Total governmental fund debt service is 20.1% of total governmental fund expenditures, and net direct debt is 273.6% of total governmental fund revenue.

The city currently does not have plans to issue additional debt.

Shenandoah's pension contributions totaled 4.0% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

The city provides pension benefits for all full-time employees through the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer, public employee retirement system. Overall, the funding level has improved to 77% as per the 2018 audit from 65% in 2015. Under state law governing the TMRS, an actuary determines the contribution rate annually; Shenandoah has contributed to the TMRS plan at the actuarially determined rate historically and intends to continue doing so.

Shenandoah also provides other postemployment benefits (OPEB) in the form of group-term life insurance. The TMRS operates the OPEB plan, known as the supplemental death benefits fund. The total unfunded liability is \$120,552 per the 2018 audit, which is manageable, in our view, due to the city's very strong flexibility and liquidity position.

### **Strong institutional framework**

The institutional framework score for Texas municipalities is strong.

## **Outlook**

The stable outlook reflects our view of Shenandoah's very strong economy, budget flexibility, and liquidity position. We do not expect to revise the rating in the next two years, as we anticipate the city's budgetary performance will remain strong to adhere to its informal fund balance policy.

### **Upside scenario**

Improved financial practices and policies, coupled with sustained reserves above 75% of expenditures could result in a higher rating.

### **Downside scenario**

Material deterioration in the city's reserve levels or budgetary performance could result in a lower rating.

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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](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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