

RatingsDirect®

Summary:

Buda, Texas; General Obligation

Primary Credit Analyst:

Katy Vazquez, New York (1) 212-438-1047; katy.vazquez@spglobal.com

Secondary Contact:

Lauren Levy, Englewood + 1303 721 4956; lauren.levy@spglobal.com

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Credit Profile

US\$12.4 mil comb tax and ltd rev certs of oblig dtd 10/09/2024 due 08/15/2044		
<i>Long Term Rating</i>	AA/Stable	New
US\$9.245 mil GO bnds ser 2024 dtd 10/09/2024 due 08/15/2044		
<i>Long Term Rating</i>	AA/Stable	New
Buda GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to Buda, Texas' roughly \$9.245 million series 2024 general obligation (GO) bonds and roughly \$12.4 million series 2024 combination tax and revenue certificates of obligation (COs).
- At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's existing GO debt and COs.
- The outlook is stable.

Security

The bonds and COs are a direct obligation of Buda, payable from the proceeds of a continuing, direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within its borders.

A limited waterworks-and-sewer system surplus-revenue pledge, in an amount not to exceed \$1,000, additionally secures the COs. Due to the additional pledge's limited nature, we rate the COs 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 (AV) for all purposes with the portion dedicated to debt service limited to \$1.50. The total tax rate is well below the maximum for fiscal 2024 at 33.79 cents: 24.97 cents for debt service. Despite state statutory tax-rate limitations, we view the limited-tax GO pledge on par with the city's general creditworthiness. Ad valorem taxes are not levied on a narrower or distinctly different property tax base, and there are no limitations on the fungibility of resources available for debt-service payments.

Officials intend to use series 2024 GO bond proceeds to fund various city park-and-recreation projects, streets, roads, bridges, and intersections and series 2024 CO proceeds to finance public-works and parks-facility expansion projects and sports-complex improvements.

Credit overview

Buda, a growing suburb of Austin, has realized substantial tax base growth recently, precipitating the need for large debt issuances for infrastructure, making it an outlier in the rating category. Buda's history of strong finances, growing local economy, full self-support coverage on a portion of its debt, and substantial flexibility to raise its

interest-and-sinking tax rate somewhat mitigate the elevated debt profile.

With Buda located along several transportation corridors providing convenient access to downtown Austin, AV has increased by 18% to \$3.1 billion within the past three years. The city recently annexed a new 762-acre residential development, Persimmon, with multiple other developments under construction. The city recently added roughly \$2 million of commercial-warehouse space to the tax base, as well as new retail and office spaces. Leading taxpayers include Walmart Inc. and Amazon, as well as various other commercial businesses. The city continues to experience economic growth in-line with much of the Austin Metroplex, which we expect will likely continue.

Buda has a history of maintaining what we consider very strong general fund reserves, currently at more than 80% in the most recently audited fiscal year, far exceeding its formal policy of maintaining three-and-half months, or 29% of operating expenditures. In fiscal 2023, sales taxes generated 50% of general fund revenue and property taxes generated 15%, increasing year over year and outpacing projections, which we consider commensurate with growth occurring in the city. In fiscal 2023, the city yielded an operating surplus due largely to higher-than-expected interest and investment earnings and license-and-permit revenue. Fiscal 2024 contains a \$2 million operating deficit, which is currently trending positively according to budget-to-actual reports. Officials expect the city will likely end with a smaller-than-budgeted deficit, even with some emergency water-and-wastewater repairs. The fiscal 2025 budget includes an operating deficit, largely for capital outlay, and conservative assumptions, such as a 7% revenue increase, which somewhat mitigates material salary increases to aid staff retention. We do not expect to change our view of finances during the next few fiscal years despite officials potentially spending down reserves by roughly \$2 million for one-time items, which, at about 56%, would still well exceed its reserve policy. However, we note the possibility that increased high debt-related fixed costs could cause affordability risk, in our opinion.

We consider Buda's debt profile a credit weakness with elevated carrying charges. The city currently plans to issue new debt annually, so we expect debt will likely remain very weak. We note the city has substantial flexibility to increase the interest-and-sinking portion of the tax rate if it were to realize budgetary pressure. It is also raising water-and-wastewater rates annually to help pay for increased debt service, which we view positively. In 2024, Buda increased water fees by 6% and wastewater fees by 3%. Buda has several privately placed debt obligations outstanding, which are roughly 5% of total direct debt; however, these obligations do not contain any unusual provisions, such as nonstandard events of default or acceleration, we view as a potential liquidity risk.

The rating reflects our opinion of Buda's:

- Growing economy with ongoing development, bolstered by access to the Austin-Round Rock metropolitan statistical area;
- Strong management with good financial-management policies, practices under our Financial Management Assessment (FMA) methodology--highlighted by its monthly financial update to the city council with budget-to-actual reports, quarterly investment-management reports, and rolling five-year capital plan--and strong Institutional Framework score;
- Historically strong operating performance with year-to-date fiscal 2024 results trending well, coupled with the maintenance of very strong reserves; and
- Very weak debt profile with debt service at 29% of total governmental expenditures with additional annual debt

issuances expected, coupled with manageable pension and other postemployment benefit obligations that represent a relatively small amount of total expenditures.

Environmental, social, and governance

We consider Buda's environmental, social, and governance (ESG) factors neutral in our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' view that Buda will continue to have strong operating performance and maintain very strong reserves while navigating economic growth.

Downside scenario

We could lower the rating if substantial debt issuances were to outpace tax base growth or if increased fixed costs were to pressure the budget, decreasing reserves.

Upside scenario

We could raise the rating if debt carrying charges were to decrease materially and if income were to increase comparable with higher-rated peers.

Buda, Texas--key credit metrics				
	Most recent	--Historical information--		
		2023	2022	2021
Strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	108.6			
Market value per capita (\$)	191,387			
Population		16,437	15,732	15,593
County unemployment rate(%)		3.3		
Market value (\$000)	3,145,829	2,664,188	2,131,564	1,879,344
10 leading taxpayers as a % of taxable value	12.4			
Strong budgetary performance				
Operating fund result as a % of expenditures		6.9	(5.7)	14.0
Total governmental fund result as a % of expenditures		26.7	26.6	16.3
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		83.7	84.0	69.0
Total available reserves (\$000)		13,229	11,788	11,478
Very strong liquidity				
Total government cash % of governmental fund expenditures		266.2	255.6	216.8
Total government cash % of governmental fund debt service		913.8	933.5	1,046.1
Strong management				
Financial Management Assessment	Good			
Very weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		29.1	27.4	20.7

Buda, Texas--key credit metrics (cont.)

	Most recent	--Historical information--		
		2023	2022	2021
Net direct debt as a % of governmental fund revenue	424.4			
Overall net debt as a % of market value	8.9			
Direct debt 10-year amortization (%)	51.5			
Required pension contribution as a % of governmental fund expenditures		5.2		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0		

Strong Institutional Framework

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- U.S. Local Governments Credit Brief: Texas State Counties And Municipalities Means And Medians, April 5, 2024

Ratings Detail (As Of September 5, 2024)

Buda combination tax & ltd rev certs of obligation ser 2014		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Buda comb tax and ltd rev certs of oblig		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Buda comb tax and rev certs of oblig		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Buda GO bnds ser 2016 dtd 08/15/2016 due 08/15/2040		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Buda GO rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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