

CREDIT OPINION

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Somerville (City of) TX

New issuer

Summary

[Somerville \(City of\) TX](#) (A1) credit profile benefits from low long-term liabilities that will increase to about % of revenues post-sale. The city has adequate financial reserves despite its small operation size with revenues equal to only \$3.2 million. The city's economy is limited given its small size and also has taxpayer concentration as the city is home to a railroad tie factory for BSNF Railway which is equal to 25% of the city's assessed valuation. Resident incomes are weak relative to the nation at 85% of the US. However, full value per capita is stronger than similarly rated peers at \$150,458. The city's proximity to the Bryan-College Station MSA and Texas A&M are a positive as the economic trend for the area is stronger than the nation. The city's small management team consists of a five person city council that sets policies and legislation, and a city administrator that works to enact those initiatives.

Credit strengths

- » Growing economy in proximity to the Bryan-College Station MSA
- » Low long-term liabilities and fixed costs

Credit challenges

- » Single taxpayer concentration of 25% of property valuation
- » Limited size of operations relative to peers
- » Below median resident incomes

Rating outlook

We do not assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Significant economic expansion and diversification leading to a growth in the revenue base
- » Material increase in reserves consistent with higher rated peers to around 60% of revenue

Factors that could lead to a downgrade

- » Increase in long-term liabilities to over 200% of operating revenues
- » Operational imbalance leading to available fund balance and/or liquidity below 30% and 40% of revenues, respectively

Key indicators

Exhibit 1

Somerville (City of) TX

	2020	2021	2022	2023	A Medians
Economy					
Resident income ratio (%)	80.3%	72.0%	85.3%	N/A	85.3%
Full Value (\$000)	\$110,377	\$110,594	\$119,409	\$148,790	\$765,032
Population	1,226	1,249	1,246	N/A	10,363
Full value per capita (\$)	\$90,030	\$88,546	\$95,834	N/A	N/A
Annual Growth in Real GDP	-0.1%	4.5%	2.4%	N/A	4.7%
Financial Performance					
Revenue (\$000)	\$2,996	\$2,388	\$2,628	\$3,116	\$22,589
Available fund balance (\$000)	\$1,823	\$1,849	\$1,356	\$1,280	\$9,301
Net unrestricted cash (\$000)	\$1,703	\$2,009	\$1,847	\$1,359	\$13,502
Available fund balance ratio (%)	60.8%	77.5%	51.6%	41.1%	40.7%
Liquidity ratio (%)	56.8%	84.2%	70.3%	43.6%	55.3%
Leverage					
Debt (\$000)	\$677	\$2,158	\$2,378	\$2,156	\$18,954
Adjusted net pension liabilities (\$000)	\$540	\$699	\$538	\$412	\$28,106
Adjusted net OPEB liabilities (\$000)	\$0	\$0	\$73	\$55	\$1,627
Other long-term liabilities (\$000)	\$22	\$28	\$35	\$34	\$749
Long-term liabilities ratio (%)	41.3%	120.8%	115.1%	85.3%	272.9%
Fixed costs					
Implied debt service (\$000)	\$57	\$48	\$151	\$166	\$1,390
Pension tread water contribution (\$000)	\$30	\$27	\$23	\$24	\$864
OPEB contributions (\$000)	\$0	\$0	\$3	\$4	\$56
Implied cost of other long-term liabilities (\$000)	\$2	\$2	\$2	\$2	\$47
Fixed-costs ratio (%)	3.0%	3.2%	6.8%	6.3%	12.6%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the College Station-Bryan, TX Metropolitan Statistical Area.

Sources: US Census Bureau, Somerville (city Of) TX's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of Somerville, TX is small town located in Burtleson County, TX about 25 miles southwest of Bryan/College Station. The city is home to a population of about 1,400 residents.

Detailed credit considerations

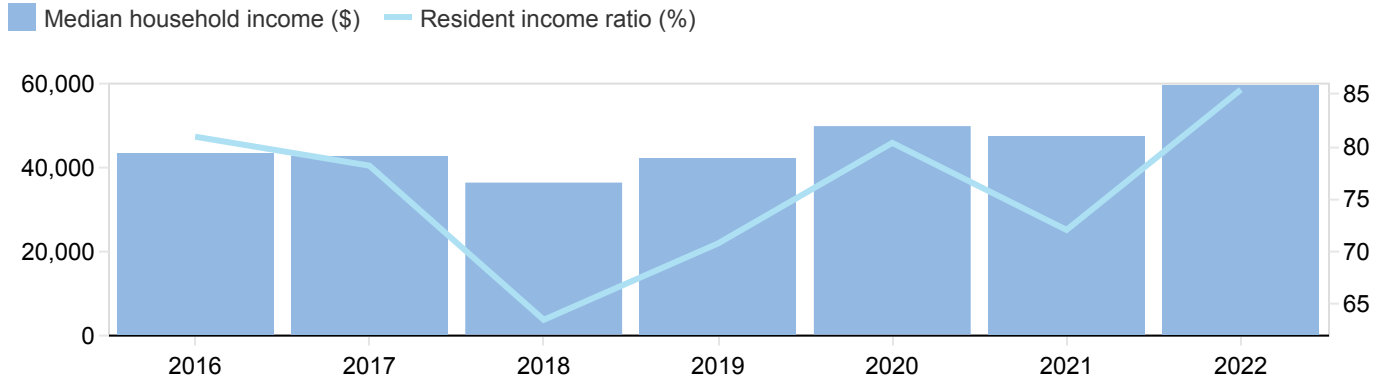
The city's economy is limited relative to similarly rated peers and is significantly concentrated. Resident incomes are below average with median household incomes adjusted for regional price parity equal to 85% of the nation. The city's largest employer and taxpayer, [BNSF Railway Company](#) (A2 stable), accounts for 25% of the city's modest \$187 million tax base. The full value per capita is much stronger at \$150,458. The city is seeing ongoing residential development which should support economic growth and help to somewhat diversify the tax base. The city is located within the Bryan-College Station Metropolitan Statistical area. The MSA's 5-year GDP growth is 3.1% which is slightly higher than that of the US (2.4%).

The city has a modest scope of operations relative to peers with total revenues of \$3.1 million in fiscal 2023. The city's governmental activities comprise the majority of its operations and are primarily supported by property and sales taxes that will continue to increase modestly over the near term. The city's water and sewer fund comprises about 33% of the city's operations. The city's fiscal 2023 available fund balance is a healthy 41% of revenue. The fiscal 2024 unaudited information shows strong operations increasing available fund balance. The increase is driven by careful expense management. The fiscal 2025 budget includes a modest surplus and year-to-date financial information is in line with budgeted expectations.

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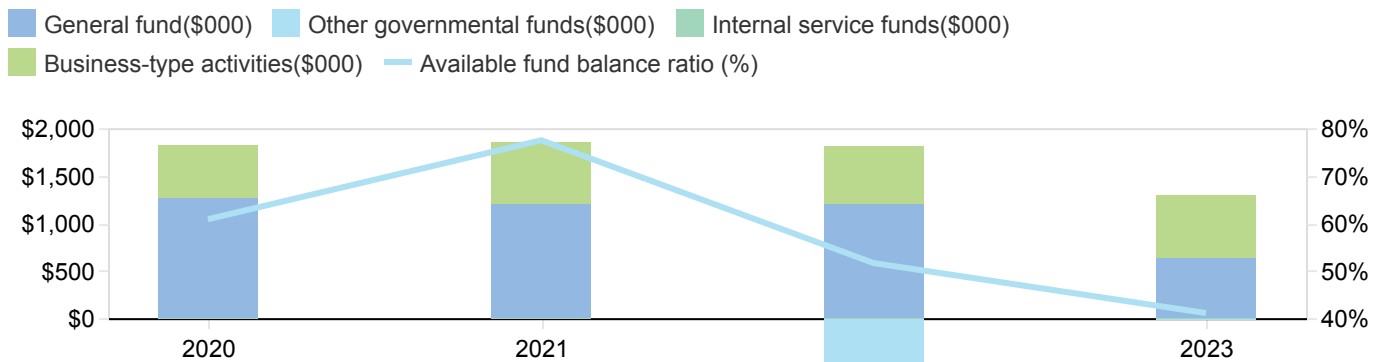
As of fiscal 2023, the city's long-term liabilities were only 85% of operating revenues given limited debt. The city participates in the state of Texas's pension plan and the liability is very low given the city's small staff. The Series 2025 certificates bonds will increase the city's total debt to about \$3 million or about 127% of revenues. Adjusted fixed costs are very low at just 6% of revenue and, while expected to rise with the current issuance, are likely to remain manageable given projected revenue growth.

Exhibit 2
Positive Resident Income Trends



Source: Moody's Ratings

Exhibit 3
Strong Fund Balance despite capital spending

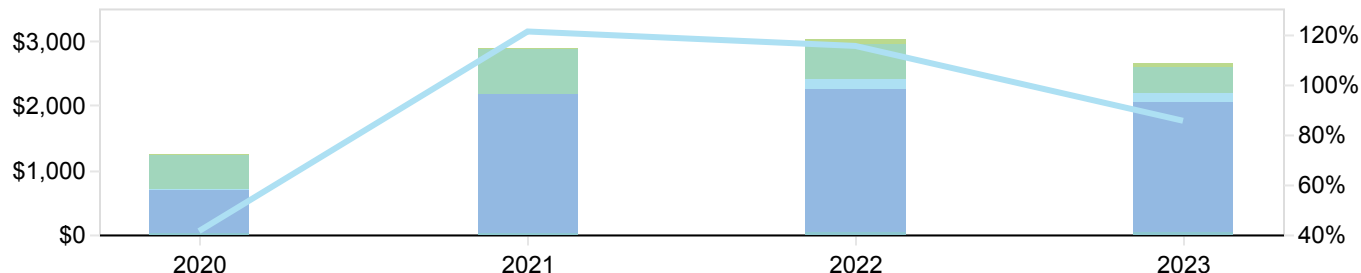


Source: Moody's Ratings

Exhibit 4

Total Primary Government - Long Term Liabilities Low

■ Governmental Debt(\$000)
 ■ Business-Type Activity Debt(\$000)
 ■ Adjusted net pension liabilities(\$000)
 ■ Adjusted net other post-employment liabilities(\$000)
 ■ Other long-term liabilities(\$000)
 — Long-term liabilities ratio (%)



Source: Moody's Ratings

ESG considerations

Environmental

The local government sector generally has low exposure to environmental risks. The district has high exposure to wildfires and medium exposure to floods, heat stress, water stress, and hurricanes. Favorably, federal and state governments help mitigate these exposures. The US government continues to provide substantial assistance via its Federal Emergency Management Agency (FEMA) in the wake of large storms. The State of Texas has taken action to help mitigate water stress risk within its borders by issuing general obligation debt through the Texas Water Development Board (TWDB) since the 1950s to finance a variety of water conservation and supply projects.

Social

The city's economy is largely driven by agriculture and a large railroad tie manufacturing facility. It also benefits from its proximity to the Bryan/College Station area and access to ample employment opportunities. Resident incomes are weak relative to the nation.

Governance

Governance is a driver of this initial rating action. The city's small management team consists of a five person city council that sets policies and legislation, and a city administrator that works to enact those initiatives.

Texas cities have strong ability to match revenues to expenditures. A majority of their primary operating revenue source (property and sales taxes) are subject to state-imposed caps. Cities have autonomous rate setting authority with no caps for municipal utility fees. Cities also maintain significant expenditure flexibility.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 5

Somerville (City of) TX

	Measure	Weight	Score
Economy			
Resident income ratio	85.3%	10.0%	A
Full value per capita	150,458	10.0%	Aa
Economic growth metric	0.7%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	41.1%	20.0%	Aaa
Liquidity ratio	43.6%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	85.3%	20.0%	Aaa
Fixed-costs ratio	6.3%	10.0%	Aaa
Notching factors			
Limited scale of operations	-1.0		
Scorecard-Indicated Outcome			Aa2
Assigned Rating			A1

The Economic Growth metric cited above compares the five-year CAGR of real GDP for College Station-Bryan, TX Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Somerville (city Of) Tx's financial statements and Moody's Ratings

Appendix

Exhibit 6

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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