

# RatingsDirect®

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## Summary:

# Killeen, Texas; General Obligation

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## Summary:

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### Credit Profile

US\$32.0 mil combination tax & rev certs of oblig ser 2023 due 08/01/2043

<i>Long Term Rating</i>	AA/Stable	New
Killeen GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Killeen GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Killeen GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

### Credit Highlights

- S&P Global Ratings raised its long-term and underlying rating (SPUR) to 'AA' from 'AA-' on Killeen, Texas' outstanding general obligation (GO) debt.
- At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the city's anticipated \$32 million series 2023 combination tax and revenue certificates of obligation.
- The upgrade reflects our view of the city's continued economic growth that has translated to a material improvement in its underlying economic metrics, which are now more comparable with those of similar-rated peers. It also reflects the city's track record of positive budgetary performance, which has resulted in the maintenance of its very strong reserve position and the material improvement in its retirement plans.
- The outlook is stable.

### Security

The city's GO bonds and certificates of obligation constitute direct obligations of the city payable from a direct and continuing ad valorem tax levied on all taxable property within its jurisdiction. Texas statutes limit the ad valorem tax rate for home rule cities to \$2.50 per \$100 of taxable assessed valuation (AV) for all city purposes. The Texas attorney general permits the allocation of \$1.50 of the \$2.50 maximum tax rate for ad valorem tax debt service. The city is below the state maximum levy at 62.33 cents per \$100 of AV, 15.77 cents of which is dedicated to debt service. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the city's overall ability and willingness to pay debt service.

The certificates are further secured by a limited pledge of the city's water and sewer system net revenues, not to exceed \$1,000. Given the limited nature of the additional pledged revenues, we base our ratings on these obligations on the city's ad valorem tax pledge.

Proceeds from the certificates will be used for park improvements and a parks maintenance facility; public safety facilities and equipment; additions to the city airport, including a new fixed base operator building; and payment of professional services and costs of issuance.

### **Credit overview**

Killeen is located in central Texas, approximately 28 miles west of Temple and 53 miles north of Austin. The city is adjacent to Fort Cavazos, the U.S.'s largest armored post globally and the largest single-location employer in Texas, and which we consider a stabilizing institution that supports economic growth, regional draw, and indirect job creation. Killeen is experiencing exceptional growth due to significant infrastructure development, favorable position along major transportation corridors, relatively affordable housing, proximity to Austin, and strong business climate. We also note that the city's tax base has been resilient through various economic cycles, demonstrating continued growth through downturns such as the dot-com bubble, the Great Recession, and the COVID-19 pandemic. The city's ability to withstand exogenous shocks highlights its competence to undertake efforts that broaden its local economic base through diversification initiatives and to engage in comprehensive planning efforts that identify potential economic vulnerabilities.

Strong revenue growth and conservative budgeting stemming from its strong management policies and practices have contributed to positive budgetary performance, resulting in the maintenance of a very strong reserve and liquidity position that we expect will continue in the near term. In addition, the city carries a sizable, although manageable, debt burden given its rapid amortization and tax base growth. It has also enacted several credible changes to its retirement plans that have subsequently reduced its liabilities and improved its funding ratio. Given the city's sustained positive operations and improved pension funding, we expect that it will maintain its very strong financial position within our two-year outlook period.

The ratings reflect our view of the city's:

- Broad and diverse taxpayer base, supported by Fort Hood and the Interstate 35/14 corridor between Waco and Austin, although with income and wealth metrics that are weaker than those of peers;
- Maintenance of very strong available reserves, supported by consistently positive operating results over the last three fiscal years;
- Strong financial management practices, including a state-mandated framework of budget development and monitoring, multiyear budget forecasting, and formal policies for debt management and reserves; and
- Manageable debt burden with rapid amortization and well-funded pension plan with exposure to long-term pressure from rising costs.

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

We have analyzed the city's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile, and consider them neutral within our credit analysis.

## Outlook

The stable outlook reflects our expectation that Killeen will likely continue to demonstrate very strong budgetary flexibility and liquidity supported by its strong budgetary performance and financial management policies. We expect that the city's debt burden will increase in the near future, although we do not expect it to negatively affect the rating and believe the city will maintain stable economic growth and continue to anchor what we consider to be a broad and diverse metropolitan statistical area within our two-year outlook horizon.

### Downside scenario

We could lower the rating if the city experiences financial pressure--stemming from fixed costs or otherwise--that leads to a material decline in available fund balance to levels no longer comparable with those of similarly rated peers. In addition, we could lower the rating if additional debt issuances outpace the rate of tax-base growth, resulting in a significant increase in the city's overall debt burden.

### Upside scenario

All else equal, we could raise the rating if continued economic expansion and diversification results in improved wealth and income levels that are more comparable to those of higher-rated peers.

## Killeen, Texas--Financial & operating statistics

	Most recent information	Historical information		
		2022	2021	2020
<b>Economic indicators</b>				
Population	159,172			
Median household EBI % of U.S.	82.00			
Per capita EBI % of U.S.	68.33			
Top 10 taxpayers as a % of assessed value	4.32			
<b>Financial indicators</b>				
Total adjusted available fund balance (\$000)		33,722	32,514	22,617
Total adjusted available fund balance as a % of operating expenditures		34.06	37.67	29.28
Governmental funds cash as a % of governmental fund expenditures		125.45	96.59	80.89
General fund operating result as a % of general fund operating expenditures		0.55	10.93	2.97
<b>Debt and long-term liabilities</b>				
Overall net debt as a % of market value	4.70			
Debt service as a % of governmental funds expenditures		13.28	14.52	15.50
Required pension contribution (\$000)		8,251	6,849	5,512
OPEB contribution (\$000)		472	486	
Required pension plus OPEB contribution as a % of governmental fund expenditures		6.45	6.18	5.00

EBI--Effective buying income. OPEB--Other postemployment benefit.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of June 28, 2023)		
Killeen comb tax & rev certs of oblig ser 2022 dtd 02/16/2022 due 08/01/2041		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Killeen GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Killeen GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
<i>Unenhanced Rating</i>	NR(SPUR)	
Killeen GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded

Many issues are enhanced by bond insurance.

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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