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Summary:
Tyler, Texas; General Obligation

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Credit Profile

US\$. mil icr due 12/31/2099

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' issuer credit rating (ICR) and stable outlook to the City of Tyler, Texas.

The ICR reflects our opinion of the city's:

- Status as the regional trade, service, and health care center for much of Northeast Texas, with a stable and diversifying economic base and a diverse and expanding property tax base;
- Adequate income levels due, in part, to a significant student population and offset, in part, by a lower cost of living and a low tax rate;
- Consistently strong financial performance and position, which in our opinion limits the city's exposure to potential fluctuations in sales tax collections, which account for a considerable portion of the city's operating and capital revenue;
- Strong financial management policies; and
- Low overall debt burden.

With an estimated population of about 111,000 Tyler, is located 100 miles east of Dallas. It is Smith County's ('AA+' general obligation, or GO, bond underlying rating) county seat. Four nearby colleges and universities -- the University of Texas at Tyler, Tyler Junior College, the University of Texas Health Center at Tyler, and Texas College -- have a combined enrollment of about 17,000 students. Tyler serves as a regional health care center: It has three primary hospitals and a large number of related health care businesses. According to Global Insight, the education and health sector has replaced trade, transportation, and utilities as the city's largest employment sector at 21% of total employment in 2008, up from 17% in 1999. The city also serves as a regional trade and service center, as evidenced by high per capita retail sales at 121% of the national average, and attracts visitors from a retail trade area that includes all or parts of 22 counties in northeast Texas. According to city officials, an estimated 270,000 people enter the city each day for work, entertainment, shopping, medical services, government business, or cultural activities. Leading employers include East Texas Medical Center (estimated 3,650 employees), Trinity Mother Frances hospitals and clinics (3,567), Tyler Independent School District (2,572), Brookshire Grocery Company (2,190), air conditioner manufacturer Trane Co. (1,949), Wal-Mart (1,670), air conditioner manufacturer Carrier Corp. (1,201), and cable/broadband provider Suddenlink Communications (1,057). While the city's economy has been impacted by the national recession, it appears to be holding up relatively well. According to Global Insight, Tyler's real gross metro product (GMP) is estimated to decline by 0.9% in 2009, below the estimated 2.5% decline in U.S. real gross domestic product. Growth is projected to rebound quickly, with GMP projected to increase by 2.2% in 2010 and 3.3% in 2011. As of July 2009, the city's 8.0% preliminary unemployment rate was below the state (8.2%) and national (9.4%) averages.

Tyler's electorate authorized a dedicated half-cent sales tax for economic development in 1995. The city is using these revenues for infrastructure improvements to spur economic growth. The authorization of the half-cent sales tax, coupled with steady assessed value (AV) growth, has allowed the city to reduce the property tax rate to a low 20.4 cents per \$100 of AV in fiscal 2005 from 43.72 cents in fiscal 1997. The property tax base increased by 41% over five years to \$6.7 billion for fiscal 2010. The 10 leading taxpayers are very diverse and account for just 11% of the total tax base. Income levels are adequate in our view: The city's median effective buying income is 81% of the national average. Adequate income levels are offset, in part, by a below-average cost of living. Market value, an indication of wealth, is strong, in our opinion, at about \$60,000 per capita.

Tyler's financial performance has remained very strong. Historically, the city has maintained unreserved general fund balances above its formal minimum fund balance policy, which is to maintain general fund reserves of at least 15% of estimated annual operating expenditures. The city ended fiscal 2008 with a \$10.4 million unreserved general fund balance, or a very strong 20% of operating expenditures, after a \$353,000 surplus. Management is projecting that the ending general fund balance will decrease to \$9.8 million for fiscal 2009, or 17.5% of projected expenditures. The proposed fiscal 2010 budget anticipates a further decrease to \$8.6 million, or 15% of budgeted expenditures, which we would continue to consider very strong.

Due to the city's strong regional retail draw, general fund revenues are primarily derived from the sales tax (46% in fiscal 2008). Year-over-year projected fiscal 2009 general fund sales tax revenues decreased by about 2%. The proposed fiscal 2010 budget anticipates sales tax revenues to remain flat.

Standard & Poor's considers Tyler's financial management practices "strong" under its Financial Management Assessment (FMA) methodology, indicating that practices are strong, well-embedded, and likely sustainable. Highlights include quarterly reporting of the city's financial position and investments to the governing body with procedures for budget adjustments in place if needed. Management has a formal a 10-year capital improvement plan funded by a dedicated sales tax levy as well as comprehensive replacement schedules for maintenance and operational capital projects. Officials prepare three years of financial planning for all general fund revenues and expenditures, which is incorporated into the budget development process. The city maintains a formal investment policy that complies with state requirements as well as a formal fund balance policy of 15% of estimated annual operating expenditures for the general fund, utilities fund, and sanitation fund. The city has a formal debt management policy that includes limits on revenue-supported debt but does not address maximum tax-supported debt levels.

The net overall burden is a low, in our view, 2% of market value or \$1,210 per capita. Debt service amortization is slower than average, with officials planning to retire 39% of principal over 10 years and all GO principal by 2034. Debt service carrying charges are low, in our view, at about 5% of total governmental funds expenditures for fiscal 2008. We understand that the city has no plans to issue additional GO debt within the next one to two years.

Outlook

The stable outlook reflects the city's stable economic base and our expectation that the city will adjust expenditures as necessary to sustain its very strong financial position despite its significant reliance on sales tax revenues. The outlook also reflects our expectation that the city's use of the dedicated half-cent sales tax to fund essentially all tax-supported debt will continue, and will allow the city to maintain its low overall debt burden.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

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