S&P Global Ratings

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Summary:

Plains, Texas; General Obligation

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Credit Profile		
US$1.645 mil comb tax and rev certs of oblig ser 2024 dtd 05/01/2024 due 02/15/2049		
Long Term Rating	A/Stable	New
City of Plains combination tax & rev certs of oblig		
Long Term Rating	A/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'A' long-term rating to Plains, Texas' approximately $1.6 million series 2024 combination tax and revenue certificates of obligation (COs).
- At the same time, we affirmed our 'A' long-term rating on the city's outstanding COs.
- The outlook is stable.

Security

The COs are payable from the city's direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city. The certificates are additionally secured by a limited pledge of net revenue of the city's waterworks and sewer system. The city's maximum allowable ad valorem tax rate is $2.50 per $100 taxable assessed valuation (AV) for all city purposes, of which no more than $1.50 can be for the payment of existing debt. The city is well under this cap, levying 38.29 cents for maintenance and 32.71 cents for debt. We do not differentiate between the city's limited-tax GO 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. Therefore, we do not differentiate between the city's limited-tax debt and its general creditworthiness.

Proceeds will be used to construct an arsenic and fluoride removal treatment plant. The city has no additional authorization or debt plans at this time.

Credit overview

The rating reflects Plains' limited economy in both size and diversity of industry coupled with a high debt burden, though balanced by the city's very strong reserves driven by consecutive years of surplus operations. The city is located about 70 miles southwest of Lubbock with a local economy centered on oil and gas extraction and agricultural activity. While the majority of the city's tax base consists of mineral values, total assessed valuation (AV) has only declined once (2020) in the past 20 years. Tax base expansion over the past five years has been modest, with an average annual AV growth rate of 0.7%, and we expect this trend to continue buoyed by the West Texas oil market. While the tax base is diverse, with the top 10 taxpayers accounting for 15.8%, employment is concentrated within the energy sector.

While we view the city's concentrated economy with enhanced probability of tax base volatility as a potential risk, we also believe that management's conservative budgeting practices help offset potential budgetary strain. Governmental fund operations have been steady in recent years, all ending in a surplus. With general revenues coming nearly equally from property and sales taxes, management uses conservative revenue estimates and builds contingency into its expenses, which has helped it sustain its positive operations and extremely strong fund balance in recent years. The total fiscal 2024 (Sept. 31) budget was adopted with breakeven results; however, management is currently tracking surplus results of $72,000 six months into the fiscal year driven by conservative expenditure assumptions.

This is the city's second debt issuance in the past year, which has considerably increased its direct and overlapping debt burden (from having no burden a year prior) to just under $5 million, or 10.8% of its tax base. The city expects a large portion of the current debt burden to be fully supported by utility revenues, with planned increases to both water and sewer rates. The city's overall limited budget and nominally small reserves would be strained should revenues from the utility enterprise be insufficient to cover annual debt service. Positively, the elevated debt burden and carrying charges are somewhat offset by the city's manageable pension burden.

Other credit factors include our view of the city's:

- Limited and relatively volatile tax base, with demographics and employment tied to oil field activity;
- Standard financial management assessment (FMA), highlighted by conservative assumptions and oversight, but lacking long-term planning and some formalized policies. Management uses a five-year budgetary history to create projections and budget-to-actual reports are shared with city council on a monthly basis. However, the city lacks long-term financial or capital planning. The city has no formal reserve policy, but there is an informal target to maintain three months of expenses in reserves for cash flow purposes, which it has maintained well above;
- Positive operational performance in recent years, leading to a very strong financial position that is expected to be sustained, and a strong institutional framework score; and
- Weakened debt burden as the city layers in new-money debt, countered by a manageable pension obligation.

Environmental, social, and governance

We view the city's climate transition risk factor as elevated due to its concentration in the petrochemical industry. Increasing regulatory challenges or costs as some sectors of the global economy transition to more renewable energy could pressure the local economy and pledged revenue performance. We view the city's social and governance factors as neutral to our credit analysis.

Outlook

The stable outlook reflects our expectation that Plains' local economy will remain mostly stable despite volatility in its predominant sectors, while also maintaining a very strong reserve and at least balanced operations. It also reflects our expectation that a large portion of its debt profile will be supported by its utility system, and that debt costs will not pressure governmental fund performance.

Downside scenario

We could lower the rating if financial metrics or reserves materially weaken, or if debt costs strain the city's stable financial performance or reserves.

Upside scenario

We could raise the rating if the local economy grows significantly and diversifies, leading to a decreased potential for tax base volatility and improved per capita market values and incomes.

Plains, Texas--key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Very weak economy				
Projected per capita EBI % of U.S.	75			
Market value per capita ($)	31,128			
Population			1,476	1,503
County unemployment rate(%)			4.0	
Market value ($000)	45,945	43,262	42,882	
Ten largest taxpayers % of taxable value	15.9			
Strong budgetary performance				
Operating fund result % of expenditures		2.6	3.3	27.2
Total governmental fund result % of expenditures		26.7	3.3	27.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		211.5	270.6	290.4
Total available reserves ($000)		1,529	1,748	1,728
Very strong liquidity				
Total government cash % of governmental fund expenditures		327	310	334
Total government cash % of governmental fund debt service		--	--	--
Adequate management				
Financial Management Assessment	Standard			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		0.0	0.0	0.0
Net direct debt % of governmental fund revenue	504			
Overall net debt % of market value	10.8			
Direct debt 10-year amortization (%)	25			
Required pension contribution % of governmental fund expenditures		2.9		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed