

To the Mayor and Members of the City Council

March 17, 2015

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SUBJECT: STANDARD & POOR’S WATER & SEWER CREDIT REVIEW – MARCH 2015

On March 3, 2015, Standard & Poor’s (S&P) released a credit report affirming the City’s AA rating with a stable outlook on our water and sewer system revenue debt. This report was released subsequent to a call between S&P and City staff wherein a system update was provided to the credit analysts. This call is part of a traditional surveillance process that each of the rating agencies conduct to ensure the underlying rating has not changed due to events unknown to the analysts. S&P cited the following highlights as part of the confirmed ratings:

- Large and diverse retail and wholesale service area – Wholesale customers accounted for 20% of fiscal year 2014 revenue;
- Willingness to raise rates regularly and pass along wholesale water cost increases; and
- Good financial performance, evidenced by the maintenance of strong total debt service coverage before transfers, and good liquidity.

The report further states: “Recent 7.3% water and 4.8% sewer increases, effective in January 2015, raised the combined utility rate to \$69.28 for 1,000 cubic feet of water and wastewater service; when annualized, we believe this is an affordable 2% of the city’s median household effective buying income.”

There are three businesses that rate the City’s long-term debt: Moody’s, S&P, and Fitch. Each of these entities specialize in conducting independent credit reviews, evaluating risk, and reviewing financial performance in order to determine our “score” for investors to utilize in their analysis of potential investment opportunities. Our current water and sewer ratings from each of the firms are as follows:

Moody’s Investor Services	Aa1
Standard & Poor’s	AA
Fitch	AA

The table below depicts the available ratings along with the definitions of how investors evaluate the credit worthiness of the investment and the issuing organization:

Moody’s	S&P	Fitch	Definitions
Aaa	AAA	AAA	Prime. Maximum safety for investors. Lowest interest costs.
Aa1	AA+	AA+	High grade and high quality investments.
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade investments.
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade investments.
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade instruments.

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Ba2 Ba3	BB BB-	BB BB-	Speculative investments.
B1 B2 B3	B+ B B-	B+ B B-	Highly speculative investments.
Caa1	CCC+	CCC	Substantially risky investment.
Caa2 Caa3	CCC CCC-	--- ---	Investments and company in poor standing
Ca	---	---	Extremely speculative
C	---	---	May be in default
---	---	DDD	Default
---	---	DD	
---	D	D	
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Beginning in fiscal year 2015 as part of the annual financial cycle, the City will be making presentations to each of the three rating agencies in the summer. These presentations will cover updates on both our tax supported and our revenue supported debt. The City's financial advisors, First SouthWest and Estrada & Hinojosa will be supporting these efforts, which will include reviews of on both our outstanding debt and our plans for new debt issuances. We look forward to previewing this process in an upcoming presentation in May of 2015.

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517.

**David Cooke
City Manager**