

RatingsDirect®

Summary:

Lucas, Texas; General Obligation

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Credit Profile

Lucas GO

Long Term Rating

AA+/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services has raised its rating on Lucas, Texas' general obligation (GO) bonds two notches to 'AA+' from 'AA-' based on its revised local GO criteria released Sept. 12, 2013. The outlook is stable.

The rating reflects our assessment of the following factors for the city:

- We consider Lucas' economy to be very strong, with its projected per capita effective buying income at 193.5% of the U.S. and per capita market value of \$107,050. The city also has access to the broad and diverse economy of Dallas-Fort Worth-Arlington.
- In our opinion, Lucas' budgetary flexibility remains very strong, with the city expecting reserves to be greater than 145% of expenditures in the next two years and having no plans to significantly spend them down. Audited fiscal 2012 reserves were \$3.8 million or 157.3% of expenditures.
- The city's budgetary performance has been very strong overall, in our view, with a surplus of 81.8% for the general fund in fiscal 2012 and a surplus of 35.8% of total governmental funds. We project net operating results to be positive.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash above 100% of both total governmental fund expenditures and debt service. We believe Lucas has strong access to external liquidity.
- We view the city's management conditions as adequate, with standard financial practices.
- In our opinion, Lucas' debt and contingent liability profile is weak, with total governmental fund debt service at 19.9% of total governmental fund expenditures, and with net direct debt at 143.2% of total governmental fund revenue. Amortization is what we view as rapid, with about 70% of all debt to be retired in 10 years.
- The city participates in the Texas Municipal Retirement System to provide pension benefits for employees. It has contributed 100% of the annual required contribution (ARC) in each of the past three years. The combined ARC pension costs and other postemployment benefit pay-as-you-go costs for fiscal 2012 were less than 2% of expenditures, and we do not expect that these costs will increase substantially in the near term.
- We consider the Institutional Framework score for Texas cities as strong. See Institutional Framework Overview: Texas Local Governments, published Sept. 12, 2013.

Outlook

The stable outlook reflects our view of Lucas' consistent financial performance and economy, which adequate management supports. We do not expect to raise or lower the rating in the next two years, given that the city's available general fund balance is expected remain above 75% of general fund expenditures in future years. Although

we do not view it as likely to occur within the outlook horizon, a reduction of general fund reserves coupled with a deterioration in budgetary performance could lead us to lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- Institutional Framework Overview: Texas Local Governments, Sept. 12, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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