

RatingsDirect®

Summary:

Marlin, Texas; General Obligation

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US\$2.4 mil GO bonds ser 2023 dtd 03/01/2023 due 07/01/2042

Long Term Rating

A+/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to Marlin, Texas' approximate \$2.4 million series 2023 general obligation (GO) bonds.
- The outlook is stable.

Security

The GO bonds are direct obligations of the city, payable from an annual ad valorem tax levied against all taxable property in the city, within the limits prescribed by law. The maximum allowable ad valorem tax rate in Texas is \$2.50 per \$100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to \$1.50. The city's fiscal 2023 total tax rate is well below the maximum, at 81.85 cents, 3.30 cents of which is dedicated to debt service. We view the limited-tax GO debt pledge to be on par with the city's general creditworthiness because the ad valorem taxes are not levied on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service. Proceeds of the series 2023 bonds will fund various street and road improvements throughout the city.

Credit overview

Marlin is approximately 33 miles southeast of Waco, and benefits from Waco's metropolitan statistical area (MSA). The city is experiencing consistent tax base growth mostly due to recently completed or ongoing single-family residential developments, which are anticipated to continue to drive taxable AV growth over the near-term, but we expect economic metrics to remain below average. The city's operating performance is stable, in our view, with recent operating surpluses in fiscal years 2020 and 2021 attributed to conservative budgeting practices and growing general fund revenues. In fiscal 2021, the primary sources of general fund revenues were: property taxes (39%), sales taxes (24%), and sanitation (16%). The fiscal 2022 estimates reflect a general fund drawdown of about \$237,000. The fiscal 2023 budget is balanced, and officials have no plans to spend down reserves. Officials were allocated a total of \$1.4 million from COVID related grants, received in fiscal years 2021 and 2022; while these revenues are recorded in the general fund, our ratios exclude these one-time revenues from our budgetary performance calculations. The city designated the COVID-19-related revenue as restricted grant money and plans to fund various infrastructure projects through fiscal 2026. The city's debt profile is weak, and we do not anticipate officials' near-term debt plans will negatively affect our view of the city's current debt profile. Lastly, we believe Marlin's pension and other postemployment benefits (OPEB) liabilities are not an immediate source of credit pressure, as required contributions represent an affordable share of total governmental expenditures and the city's plan is well-funded.

The rating reflects our assessment of the city's:

- Weak and limited local economy, with below-average income indicators and access to a broad and diverse MSA;
- Stable operating performance in fiscal years 2020 and 2021, resulting in very strong reserves at 28% of fiscal 2022 operating expenditures;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology, highlighted by monthly budget-to-actual reporting to council, a formal investment policy but no investments, and an informal target to maintain six months of operating expenditures in reserves. However, there is no formal long-term financial forecasting, capital-planning, or debt-management policies;
- Strong institutional framework score; and
- Weak debt profile with no significant near-term debt plans, and a manageable pension and OPEB obligation.

Environmental, social, and governance

The rating incorporates our view of environmental, social, and governance (ESG) risks relative to Marlin's economy, management, financial measures, and debt-and-liability profile; we view them as neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that the local tax base will continue to experience consistent AV growth, and the city will maintain very strong reserves, supported by at least balanced operations over the next two years.

Downside scenario

We could lower the rating if the city's financial performance worsens materially, resulting in a sustained decline in reserves, particularly if they fall below \$500,000, which we view as nominally low.

Upside scenario

We could raise the rating if significant expansion of the local economy occurs, resulting in material improvement in the city's wealth and income metrics to levels that we consider comparable with those of higher-rated peers, assuming all else remains equal or improves.

Marlin, Texas--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Weak economy				
Projected per capita EBI % of U.S.	31.5			
Market value per capita (\$)	33,798			
Population		5,610	5,644	5,681
County unemployment rate(%)		5.3		
Market value (\$000)	189,604	160,900		
Ten largest taxpayers % of taxable value	18.1			
Strong budgetary performance				
Operating fund result % of expenditures		6.7	3.3	(6.3)

Marlin, Texas--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Total governmental fund result % of expenditures		3.5	12.7	(8.0)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		27.6	24.2	23.1
Total available reserves (\$000)		968	743	807
Very strong liquidity				
Total government cash % of governmental fund expenditures		56.9	57.1	24.3
Total government cash % of governmental fund debt service		795.2	1076.5	581.0
Adequate management				
Financial Management Assessment	Standard			
Weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		7.2	5.3	4.2
Net direct debt % of governmental fund revenue	120.6			
Overall net debt % of market value	3.2			
Direct debt 10-year amortization (%)	51.8			
Required pension contribution % of governmental fund expenditures		5.7		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

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

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

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