FY 2023-2024 BUDGET QUESTION

Response to Request for Information

DEPARTMENT(S): Financial Services

CBQ NO.: 064

REQUESTED BY: Kelly

DATE REQUESTED: 07/18/2023

DATE POSTED:

REQUEST: What is the City's current bonding capacity?

RESPONSE:

State law allows cities to levy the amount necessary to service its bonds through the debt service component of the property tax rate up to a maximum allowable debt service property tax rate of $1.50 per $100 of taxable value. The City's proposed debt service property tax rate for FY24 is $0.0881. There is no other formal limit to the City's bonding capacity. Practical considerations regarding the amount of bonds issued by the City include sensitivity to the impact that General Obligation bond issuances have on the future property tax burden on the City's property owners, and awareness that bond ratings agencies may downgrade the City's bond ratings if it begins to issue what they determine to be unsustainable levels of debt.

Several variables affect the City's GO bond rating including local economic trends, financial performance, reserve levels, budget outlook, debt levels, trends in unfunded pension and Other Post-Employment Benefit (OPEB) liabilities, and governance (financial policies, decision-making processes, and procedures). Each rating agency places different emphasis on these factors to arrive at a rating decision.

Key metrics from Standard and Poor's and Fitch's 2022 ratings of the City's GO Bonds are included below. The entire ratings reports are attached as appendices to this response.

Key Metrics from the City's 2022 GO Bond Ratings from Standard & Poor's

Increasing debt, partially offset by rapid amortization, growing governmental revenue

Including the four proposed issuances, Austin has approximately $1.8 billion in limited-tax GO debt outstanding. Our debt calculations also include capital leases, appropriation-backed obligations for Mueller Local Government Corp., and debt supported by the city's hotel tax. We understand Austin plans to issue additional debt annually to address capital needs, but we think above-average amortization and increasing revenue will likely help offset additional debt.

Austin, Texas Select Key Credit Metrics

	Most recent	--Historical information--		
		2021	2020	2019
Very strong economy				
Projected per capita effective buying income as a % of U.S.	139.5			
Market value per capita ($)	222,948			
Population		978,970	959,555	949,633
County unemployment rate(%)		4.0		
Market value ($000)	218,259,123	176,671,783		
10 leading taxpayers as a % of taxable value	2.7			
Adequate budgetary performance				
Operating fund result as a % of expenditures		(1.6)	1.4	0.3
Total governmental fund result as a % of expenditures		(3.9)	(6.1)	8.0
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		22.7	25.1	21.9
Total available reserves ($000)		269,733	268,636	233,865
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		78.0	94.6	113.7
Total government cash as a % of governmental fund debt service		713.0	807.5	848.2
Very strong management				
Financial Management Assessment	Strong			
Very weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		10.9	11.7	13.4
Net direct debt as a % of governmental fund revenue	114.0			
Overall net debt as a % of market value	2.6			
Direct debt 10-year amortization (%)	47.0			
Required pension contribution as a % of governmental fund expenditures		10.7		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		2.5		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Key Metrics from the City’s 2022 GO Bond Ratings from Fitch

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Strong historical revenue trends, as well as ongoing population growth and economic development, support the expectation for additional healthy post-pandemic revenue gains. Austin's independent legal ability to raise property tax revenues, fees, charges for services, and other locally controlled revenues provide substantial flexibility.

Expenditure Framework: 'a'

Austin's natural pace of spending should remain marginally above revenue growth. The city's fixed carrying costs for debt and retiree benefits are elevated, and a recently approved binding arbitration negotiation provision with firefighters adds a structural constraint to expenditure flexibility.

Long-Term Liability Burden: 'aa'

Long-term liabilities are moderate at 12% of total personal income. Fitch expects this metric to increase but remain within the 'aa' assessment range (below 20%) given additional growth-driven borrowing needs mitigated by expansion of the resource base.

Operating Performance: 'aaa'

Austin's revenue and spending controls and sound financial cushion, along with a demonstrated willingness to curb spending when necessary, contribute to the highest financial resilience assessment. The budget management assessment reflects a gap (albeit shrinking) between actual pension contributions and actuarial requirements.

FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Austin, TX's $241.4MM PIBs, COs, & PPFCOs 'AA+'; Affirms IDR; Outlook Stable

Mon 22 Aug, 2022 - 12:57 PM ET

Fitch Ratings - Austin - 22 Aug 2022: Fitch Ratings has assigned a 'AA+' rating to the following City of Austin, Texas (city) obligations:

--$155.7 million public improvement and refunding bonds series 2022;

--$9.255 million public property finance contractual obligations (PPFCOs) series 2022;

--$59.915 million public improvement bonds taxable series 2022;

--$16.495 million certificates of obligation (COs) taxable series 2022.

In addition, Fitch has affirmed the following ratings:

--the city's Issuer Default Rating (IDR) at 'AA+';

--$1.4 billion outstanding public improvement bonds, COs and PPFCOs at 'AA+';

--$3.6 million Mueller Local Government Corporation (Mueller LGC) contract revenue bonds, series 2006 at 'AA'.

The Rating Outlook is Stable.

The obligations are scheduled for a negotiated sale on Sept. 13th. Proceeds will finance various public improvements and equipment purchases and will refund a portion of the city's outstanding tax-supported debt for interest savings.

SECURITY

The public improvement bonds, COs, and PPFCOs are direct obligations of the city and are payable from an ad valorem tax limited to $2.50 per $100 of assessed valuation, levied against all taxable property in the city. The COs also feature a limited pledge (not to exceed $1,000) of surplus revenues of the city's solid waste disposal system.

The Mueller LGC contract revenue bonds are payable from a first lien on pledged revenues pursuant to a grant agreement with the city; payments are subject to annual appropriation. The pledged revenues are any of the city's available general fund monies, including sales tax revenues from retail activity within the designated Mueller project area (which the city uses as the source of repayment).

ANALYTICAL CONCLUSION

The 'AA+' IDR and limited tax bond rating reflects the city's very strong revenue profile and future growth prospects, moderate long-term liability burden and the highest level of financial resiliency. The city plans to address weakness in its municipal employee pension plan with reform legislation to be introduced at the 2023 session of the Texas legislature. This expected action follows legislative approval of a reform package for the city's police pension program at the 2021 session (see below).

The police plan reforms and proposed municipal plan reforms are expected to resolve a chronic underfunding of annual contributions to both the police and municipal plans. Expenditure flexibility is expected to remain a challenge due to inflationary and growth-related pressures, as well as a recent charter amendment regarding firefighter contract negotiations.

The Texas legislature in its 2021 session approved and the governor signed into law a reform package for the city's police pension plan that appears to ultimately address the plan's major structural weaknesses and low funding levels. The reforms included an actuarially determined funding model, increased contributions from members and the city, and governance changes.

Challenges regarding spending flexibility are heightened due to a recently approved charter amendment that requires binding arbitration between the city and Austin firefighters (if requested by either party) in the event of a future contract negotiation impasse. Fitch believes longer-term workforce controls are materially weaker under a binding arbitration framework.

The 'AA' rating on the Mueller LGC contract revenue bonds is one notch below the city's 'AA+' IDR to reflect annual appropriation risk.

Economic Resource Base

Austin has recently been one of the top performing U.S. metro area economies, and Fitch expects that trend to continue through future business cycles. The city is the state capital and home to the University of Texas at Austin (University of Texas System; rated 'AAA'), as well as six other colleges and universities. The large state government and higher education employment base historically has provided a stabilizing presence and economic buffer during downturns. Population has been growing at a pace well above the state and nation and is approaching one million per the 2020 U.S. Census.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

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Operating Performance: 'aaa'

Austin's revenue and spending controls and sound financial cushion, along with a demonstrated willingness to curb spending when necessary, contribute to the highest financial resilience assessment. The budget management assessment reflects a gap (albeit shrinking) between actual pension contributions and actuarial requirements.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Resolution of lingering pension challenges, including consistent funding at actuarially determined levels.

--Demonstrated ability to stabilize carrying costs at a level consistent with an 'AAA' rating in an environment of ongoing sizeable capital spending and structural public safety budgeting constraints.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Further weakening of the expenditure flexibility assessment due to increased carrying costs and/or escalating public safety spending.

--An acceleration of expenditure growth that creates budgetary imbalance and possible erosion of operating reserves and gap-closing capacity.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sectorspecific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

City Budgetary Update

In fiscal 2021 (FYE Sept. 30) the general fund posted a $964,000 surplus after transfers. Revenues were up nearly 8% over the prior year to $982.6 million, led by a healthy 14% gain in sales tax receipts ($281.8 million vs. $246.7 million in fiscal 2020). The local economy outperformed weaker pandemic-related projections, aided by federal assistance to individuals, businesses and local governments. The unrestricted fund balance at Sept. 30, 2021 totaled $269.7 million or 23% of spending.

The fiscal 2022 general fund budget was adopted as balanced and included spending at $1.17 billion (up 7% from fiscal 2021) and sales tax receipts of $279 million (down modestly from the fiscal 2021 total). The budget included 463 new positions citywide, a 2% pay hike for civilian workers and 2%, 2.5% and 1% salary increases for police, fire and EMS employees respectively. The city projects positive fiscal 2022 general fund results, including sales tax receipts exceeding budget by nearly $50 million (18%) and a further addition to reserves.

The adopted fiscal 2023 operating budget includes spending at $1.265 billion, up 8% from fiscal 2022. Sales tax receipts are budgeted at $347 million (a more than 5% increase from projected fiscal 2022 totals). The budget also includes 395 new positions citywide (a 2.5% increase) and a 4% pay increase for the city's civilian workforce. Taxable values for fiscal 2023 are up nearly 20% to more than $218 billion, contributing to a drop in the projected property tax rate to $0.463 per $100 valuation from $0.541 in fiscal 2022.

External pandemic-related financial assistance has totaled nearly $475 million, led by roughly $171 million in Coronavirus Aid, Relief and Economic Security (CARES) Act proceeds, an estimated $55 million FEMA grant and a $235.2 million American Rescue Plan Act (ARPA) allocation. The ARPA allocation included $188.5 million in state and local recovery funds and $56 million for other uses. The city has identified a range of community support uses for the ARPA funds, including rental assistance, homelessness, and various economic development initiatives.

Criteria Variation

None

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

No

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Austin (TX) [General Government]	LT IDR	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
Austin (TX) /General Fund Contractual Obligations - Mueller LGC/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
Austin (TX) /General Obligation - Limited Tax/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer’s available public disclosure.

APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Mueller Local Government Corp. (TX)	EU Endorsed, UK Endorsed

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US Public Finance   Infrastructure and Project Finance   North America   United States

S&P Global Ratings

RatingsDirect®

Summary:

Austin, Texas; Appropriations; General Obligation

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Summary:

Austin, Texas; Appropriations; General Obligation

Credit Profile		
US$155.7 mil pub imp & rfdg bnds ser 2022 due 09/01/2042		
Long Term Rating	AAA/Stable	New
US$59.915 mil pub imp bnds ser 2022 due 09/01/2042		
Long Term Rating	AAA/Stable	New
US$16.495 mil certs of oblig ser 2022 due 09/01/2042		
Long Term Rating	AAA/Stable	New
US$9.255 mil pub prop fin contractual obligs ser 2022 due 11/01/2029		
Long Term Rating	AAA/Stable	New
Austin GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Austin, Texas' series 2022 issuances of $155.7 million public improvement and refunding bonds, $59.915 million taxable public-improvement bonds, $16.495 million taxable certificates of obligation, and $9.255 million public property finance contractual obligations.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's general obligation (GO) debt and certificates of obligation outstanding.
- S&P Global Ratings also affirmed its 'AA+' rating on Mueller Local Government Corp., Texas' appropriation debt, supported by the city.
- The outlook is stable.

Security

Each of the four proposed 2022 series are a direct obligation of the city, payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city. The certificates are additionally secured by, and payable from, a limited surplus revenue pledge, not to exceed $1,000, of the city's solid-waste-disposal system; however, due to the limited nature of this additional pledged revenue, we rate the obligations based on the city's ad valorem-tax pledge.

The maximum allowable ad valorem tax rate in Texas for cities is $2.50 per $100 of assessed value for all purposes with the portion dedicated to debt service limited to $1.50. The total tax rate for fiscal 2023 is well below the maximum at 46.27 cents: 9.58 cents dedicated to debt service. We view the limited-tax GO debt pledge on par with the issuer credit rating (ICR), reflecting the city's general creditworthiness, because ad valorem taxes are not levied on a narrower or distinctly different property tax base and there are no limitations on the fungibility of resources.

Officials will use series 2022 bond proceeds to finance capital improvements citywide and refund a portion of GO debt for interest-rate savings.

With respect to Austin's outstanding Mueller Local Government Corp.'s appropriation debt, a master indenture created a first-lien pledge on certain tax revenue generated in the tax-increment reinvestment zone. Should pledged revenue be insufficient to pay debt service and related costs on the bonds, the city will make available all lawfully available general fund revenue, subject to annual appropriation, to fund the difference. We rate to the strength of the appropriation rating, which we notch one rating off the GO debt rating on Austin to reflect annual appropriation risk.

Credit overview

Austin's local economy continues to experience strong residential and commercial expansion, supported by consistent job and population growth. Generally increasing revenue streams, supported by a very strong management framework and an ability to make midyear course corrections, have allowed the city to maintain financial flexibility despite high debt and pension and other postemployment benefit (OPEB) carrying charges.

Large pension obligations and associated fixed costs pose a challenge to Austin's overall credit quality. While management continues to evaluate potential additional solutions to ensure that all plans remain affordable, significant increases in contributions that negatively affect finances or material deterioration in the long-term health of the plans could pressure the rating. Future credit reviews will likely focus on the city's ability to establish reforms that address pension and OPEB liabilities without materially weakening budgetary performance or flexibility.

The rating reflects our opinion of Austin's:

- Robust, growing local economy, anchoring a broad and diverse metropolitan statistical area with a local stabilizing institutional influence;
- Very strong management with strong financial-management policies, practices under our Financial Management Assessment (FMA) methodology and strong Institutional Framework score;
- Stable general fund finances outside of our adjustment to capture the underfunding of pension contributions with the maintenance of very strong reserves and liquidity; and
- Very weak debt-and-contingent-liability profile with additional debt plans and large pension and OPEB obligations.

Environmental, social, and governance

We have assessed environmental, social, and governance (ESG) risks relative to Austin's economy, financial management, fiscal performance, and debt-and-contingent-liability profile. We view environmental and social risks as neutral in our analysis. In our opinion, Austin has elevated long-term governance risk associated with high pension and OPEB expenditures and large unfunded liabilities because we think costs will likely increase over time and the city has a history of funding one of its plans below actuarially determined amounts.

Outlook

The stable outlook reflects S&P Global Ratings' view of Austin's diverse, growing economy and maintenance of very strong reserves despite large pension and OPEB carrying charges and a limited ability to make changes because state law governs benefit-and-contribution provisions for Austin's three plans.

Downside scenario

Sustained deterioration in the city's budgetary flexibility, performance, or liquidity could lead to a downgrade or outlook revision. We could also lower the rating if the city does not make progress in reducing its long-term pension liabilities or meeting the actuarially determined contribution (ADC) for the Austin Employees' Retirement Plan (COAERS); or if debt service, pension contributions, and OPEB carrying charges were to increase to levels we view as very high, negatively affecting budgetary flexibility or performance or liquidity.

Credit Opinion

A sizable, rapidly growing local economy, supported by steady job growth and a stabilizing presence

Austin is the state capital and Texas' fourth-largest city by population. It hosts six universities, a robust community college system, and numerous other higher-learning institutions. University of Texas at Austin, one of the nation's 10 leading public universities, anchors the higher-education sector. State government is the city's leading employer; coupled with the significant higher-education presence, this has acted as a stabilizing economic factor during downturns. Beyond higher education and state government, Austin's diverse employment base contains businesses in technology, health care, and professional services.

Recent significant economic development includes Tesla's $1.1 billion gigafactory that will add more than 20,000 jobs over time. In addition, 60 new businesses have opened downtown since the beginning of COVID-19 and more than 20 office projects are underway or have been proposed, reflecting a strong rebound in leasing activity to levels in-line with the pre-COVID-19 environment. Two apartment projects in the Rainey District are underway, which will add more than 600 units to the expanding district. The local housing market remains strong. Austin's transportation improvements and light-rail expansion should also support economic activity. Due to ongoing development and solid growth, we expect the local economy will likely remain very strong during the next few years.

Strong financial-management practices, policies focused on long-term structural balance, budget flexibility maintenance

Highlights include management's:

- Revenue and expenditure assumptions based, in part, on historical trends and the use of outside data to assist with forecasting;
- Monthly budget reports that show year-to-date comparisons with the budget;
- Five-year, long-term financial plan;
- Rolling, five-year capital-improvement plan that identifies funding;
- Formal investment-management policy that follows state guidelines with quarterly holdings reports to the city council;
- Formal debt-management policy that includes quantitative benchmarks and general guidelines; and
- Formal emergency and budget-stabilization reserves that call for maintaining, at least, a combined 14% of total fund requirements.

In March 2021, Austin established a citywide cybersecurity risk-management strategy.

The Institutional Framework score for Texas municipalities is strong.

Stable budgetary performance outside of underfunded pension contributions, supported by growing operating revenue

Our budgetary performance calculations include adjustments to general fund and total governmental fund revenue and expenditures to account for recurring transfers and one-time capital spending. We have also adjusted general fund and total governmental fund expenditures to include the portion of the ADC not contributed toward COAERS; we think this can inflate actual operating performance.

For fiscal 2021, the general fund reported roughly breakeven operations following our adjustments to capture reoccurring transfers from Austin Energy and Austin Water. However, after adjusting for the underfunded ADC contribution to COAERS, performance ratios deteriorate and reflect a 1.6% general fund deficit. Before transfers, property taxes generated 58% of previous-year general fund revenue and sales taxes generated 29%. Sales tax collections were up by roughly $35 million compared with the prior year. Property taxes grew by 6.5%.

For fiscal 2022, year-to-date estimated general fund expenditures are $1.9 million underbudget. Based on current revenue, Austin expects to add to available reserves and maintain emergency and budget-stabilization reserves in-line with policy requirements. The city has adopted a $5 billion (all city funds) fiscal 2023 budget. To address staffing vacancies and retain existing employees, the proposed budget included 395 net new positions, a civilian wage increase, a living-wage increase to $18 per hour from $15, and a sworn base-wage increase pending the outcome of ongoing contract negotiations. The council approved a 46.27 cents per $100 of taxable value tax rate for fiscal 2023, down from 54.1 cents in fiscal 2022. The budget also contains increased pension contributions.

In addition to assigned general fund balance totaling $116 million, Austin maintains emergency and budget-stabilization reserves within its unassigned general fund balance that totaled $152.8 million for fiscal 2021. The city's fund-balance policy speaks specifically to emergency and budget-stabilization reserves within the unassigned balance. Based on year-to-date actual results and the proposed fiscal 2023 budget, we expect available reserves will likely remain more than 15% of operating expenditures during the next two fiscal years.

Our view of Austin's exceptional access to capital markets through different capital-financing programs reflects the city's history of accessing markets for several decades through different economic cycles. The city has historically had, what we consider, very strong cash-based balances. Austin does not have any private placement or contingent liabilities that could materially affect near-term liquidity. However, the city issued series 2008A and 2008B hotel tax bonds as variable-rate bonds.

Increasing debt, partially offset by rapid amortization, growing governmental revenue

Including the four proposed issuances, Austin has approximately $1.8 billion in limited-tax GO debt outstanding. Our debt calculations also include capital leases, appropriation-backed obligations for Mueller Local Government Corp., and debt supported by the city's hotel tax. We understand Austin plans to issue additional debt annually to address capital needs, but we think above-average amortization and increasing revenue will likely help offset additional debt.

Pension and OPEB highlights

In our opinion, Austin's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. Despite some positive changes in 2021, Austin still has sizable pension and OPEB liabilities, which could lead to potential cost escalations that could greatly affect budgetary performance tied to increased contributions. For fiscal year-end Dec. 31, 2021, each plan's net pension liability decreased and funded ratios increased, reflected in the fiscal 2022 audit.

Austin maintains three defined-benefit pension systems:

- COAERS, which is 68% funded, with a net pension liability of $1.5 billion;
- Austin Police Officers' Retirement & Pension Fund, which is 60.7% funded, with a net pension liability of $605.9 million; and
- Austin Fire Fighters' Relief & Retirement Fund, which is 94% funded, with a net pension liability of $70.4 million.

Austin funds OPEB on a pay-as-you-go basis with a net OPEB liability of $4.3 billion.

An independent board of trustees administers each plan, and state law governs benefit and contribution provisions. The Texas Legislature can make amendments. For all three systems, enabling legislation determines minimum contributions. While contribution requirements are not actuarially determined, state law requires a qualified actuary approve each plan's adopted benefits. In fiscal 2021, Austin paid $137 million to COAERS, which was $19.6 million less than the ADC. Contributions to the police and fire plans in 2021 were $35.6 million and $21.8 million, respectively; this matched or exceeded annual statutorily required contributions.

During the 2021 state legislative session, Austin made changes to its police pension plan. Most notably, changes defined in House Bill 4368 reduced the plan funding period from infinite to 30 years: It added a new benefit tier, shifted to an actuarial-determined funding model, added legacy-liability payments, increased member contributions, and changed the governance structure. The police plan's net pension liability decreased materially for 2020 due to reforms allowing for the use of the fund's assumed rate of return of 7.25% compared with a blended 4.1% in 2019. Austin also raised contributions by 1% of payroll in January 2021. Officials are also working on similar reforms for COAERS during the state's legislative session in 2023. If the proposed changes pass, they will go into effect in January 2024.

While police pension system reforms are favorable and should support improved funding and lower net pension liability, we think Austin's inability to meet current return assumptions across all plans, particularly due to poor market returns so far in 2022, could further weaken its pension burden. Contributions for each of the pension plans fell short of our static- and minimum-funding-progress guidelines for pensions in 2021. Although we understand the city has flexibility to adjust to higher fixed costs during the long term, continuously increasing contributions will likely present challenges for management to address and navigate.

Austin provides certain OPEB to retirees eligible to receive pension benefits under any of the three pension systems. The OPEB plan is a single-employer plan with funding on a pay-as-you-go basis. We understand Austin has the legal flexibility to reduce retiree health-care benefits; however, we think that without a plan to fund these benefits, management could enact such reductions out of necessity.

The rating above the sovereign

Austin's GO debt is eligible to be rated above the sovereign because we think the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, we consider U.S. local governments to have moderate sensitivity to national risk. The city's ad valorem tax pledge is the primary source of debt security, which severely limits the possibility of negative sovereign intervention in debt repayment or city operations. The nation's Institutional Framework for local governments is predictable, allowing the city significant autonomy and independent treasury management. In addition, there is no history of government intervention.

Austin, Texas Select Key Credit Metrics

	Most recent	--Historical information--		
		2021	2020	2019
Very strong economy				
Projected per capita effective buying income as a % of U.S.	139.5			
Market value per capita ($)	222,948			
Population		978,970	959,555	949,633
County unemployment rate(%)		4.0		
Market value ($000)	218,259,123	176,671,783		
10 leading taxpayers as a % of taxable value	2.7			
Adequate budgetary performance				
Operating fund result as a % of expenditures		(1.6)	1.4	0.3
Total governmental fund result as a % of expenditures		(3.9)	(6.1)	8.0
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		22.7	25.1	21.9
Total available reserves ($000)		269,733	268,636	233,865
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		78.0	94.6	113.7
Total government cash as a % of governmental fund debt service		713.0	807.5	848.2
Very strong management				
Financial Management Assessment	Strong			
Very weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		10.9	11.7	13.4
Net direct debt as a % of governmental fund revenue	114.0			
Overall net debt as a % of market value	2.6			
Direct debt 10-year amortization (%)	47.0			
Required pension contribution as a % of governmental fund expenditures		10.7		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		2.5		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 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
- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of August 25, 2022)		
Austin GO		
Long Term Rating	AAA/Stable	Affirmed
Austin GO		
Long Term Rating	AAA/Stable	Affirmed
Austin GO		
Long Term Rating	AAA/Stable	Affirmed
Austin GO		
Long Term Rating	AAA/Stable	Affirmed
Austin GO		
Long Term Rating	AAA/Stable	Affirmed
Austin GO		
Long Term Rating	AAA/Stable	Affirmed
Austin GO		
Long Term Rating	AAA/Stable	Affirmed
Mueller Local Govt Corp, Texas		
Austin, Texas		
Mueller Local Govt Corp (Austin) approp		
Long Term Rating	AA+/Stable	Affirmed
Mueller Local Govt Corp (Austin) approp		
Long Term Rating	AA+/Stable	Affirmed
Mueller Local Govt Corp (Austin) approp		
Long Term Rating	AA+/Stable	Affirmed
Mueller Local Govt Corp (Austin) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Northwest Austin Mun Util Dist #1, Texas		
Austin, Texas		
Northwest Austin Mun Util Dist #1 (Austin) GO (AMBAC)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.