

RatingsDirect®

Summary:

Commerce, Texas; General Obligation

Primary Credit Analyst:

Brian J Marshall, Dallas (1) 214-871-1414; brian.marshall@standardandpoors.com

Secondary Contact:

Jennifer K Garza (Mann), Dallas (1) 214-871-1422; jennifer.garza@standardandpoors.com

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Commerce GO

Unenhanced Rating

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Upgraded

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Commerce, Texas' general obligation (GO) debt to 'A+' from 'A' based on the application of our local GO criteria released Sept. 12, 2013, and the city's improved budgetary flexibility. The outlook is stable.

The city's GO debt is secured by revenue from an ad valorem tax within the bounds of state statute.

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

- We consider the city's economy adequate, with projected per capita effective buying income at 61% of the U.S. level and per capita market value at \$30,440. Commerce has an estimated population of 9,250 and is located about 65 miles northeast of Dallas. It is the second-largest city in Hunt County behind Greenville, which is 15 miles southwest of Commerce. Texas A&M University's Commerce campus (about 900 employees and 10,400 students) fuels the city's economy. Other current leading city employers include Commerce Independent School District and Wal-Mart Stores Inc. Covidien Manufacturing closed its doors in January 2014. However, HYDRO Aluminum Metal Products remains a major employer and continues to purchase three million gallons of water each month for its operations, which we anticipate will soften the loss of one of the city's major employers. The unemployment rate in Hunt County averaged 7.8% in 2012.
- In our opinion, the city's budgetary flexibility is very strong, with an available fund balance of \$1.76 million, or more than 43% of operating expenditures. Officials are conservatively projecting modest surpluses for the general fund in fiscal 2013 and fiscal 2014.
- The city's budgetary performance was strong in fiscal 2012, in our view, with a surplus of 16% for the general fund and a surplus of 1.7% across total governmental funds. For fiscal 2013, management is budgeting for an 8.7% surplus in the general fund and a 15% surplus across total governmental funds due to lower-than-budgeted expenditures. For fiscal 2014, management is budgeting for a roughly 1% surplus in both the general fund and across total government funds.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash at 58.6% of total governmental fund expenditures and 365% of debt service in fiscal 2012. We believe the city has good access to external liquidity, as demonstrated by the city's historical issuance of GO debt.
- We view the city's management as adequate with standard financial practices.
- The city's debt and contingent liability profile is very weak, in our opinion, with total governmental fund debt service at 16% of total governmental fund expenditures and net direct debt at 184.3% of total governmental fund revenue. The aforementioned carrying charges include the city's utility-supported certificates of obligation as well as the GO-supported debt.
- The overall net debt burden is 10.5% of market value net of self-support from the utility system. Amortization of

principal is average, with 43% of debt to be repaid in the next 10 years. We anticipate that the debt profile will remain largely unchanged during the next two years, as management has no plans to issue additional debt.

- Commerce belongs to the Texas Municipal Retirement System and, per the phase-in option, has an adjusted annual required contribution of \$120,000, or 4% of total governmental funds. The city's portion of the plan is 88% funded. Officials do not provide other postemployment benefits.
- We consider the Institutional Framework score for Texas cities strong. See Institutional Framework score for Texas.

Outlook

The stable outlook reflects our anticipation that the city will maintain its very strong financial profile, as indicated by its very strong liquidity and budgetary flexibility. If the city's economic profile or budgetary performance show signs of decline, we could lower the rating. Conversely, while not likely during the two-year outlook time frame, if the city's debt and economic profiles improve, all other factors remaining constant, we could raise the rating.

Related Criteria And Research

Related Criteria

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

Related Research

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

Ratings Detail (As Of March 19, 2014)

Commerce GO

Unenhanced Rating

A+(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

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