

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's assigns Aa3 to City of Galveston, TX's GOLT bonds; outlook remains stable**

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18 Jan 2019

New York, January 18, 2019 -- Moody's Investors Service has assigned a Aa3 to the City of Galveston, TX's \$31.6 million Combination Tax and Revenue Certificates of Obligation, Series 2019. Concurrently, Moody's has affirmed the Aa3 issuer rating and the Aa3 rating on the city's outstanding general obligation limited tax (GOLT) debt, which will total \$114 million post-sale. The outlook remains stable.

#### RATINGS RATIONALE

The Aa3 issuer long term rating reflects the city's large and steadily growing tax base, tempered by outsized environmental risk given its location along the Gulf of Mexico. The rating also considers the city's strong, forward looking management team, narrowed though adequate reserves following resolution of an outstanding lawsuit in fiscal 2019. The Aa3 further incorporates the city's low debt burden given considerable utility system support of general obligation limited tax (GOLT) debt service, and above average pension liabilities.

The Aa3 limited tax rating is the same as the issuer rating, reflecting the city's ample available taxing headroom to generate dedicated property taxes sufficient to pay debt service, which offsets the property tax rate limitation established by state law, lack of full faith and credit pledge, and inability to easily override the tax rate limitation.

The issuer rating reflects our assessment of hypothetical debt secured by the district's general obligation unlimited tax pledge. No debt is currently secured by this pledge.

#### RATING OUTLOOK

The stable outlook reflects our expectation that the city's tax base will continue to exhibit moderate growth, reserves will remain in line with management's estimates at fiscal year-end 2019 and adequate compared to peers, and the combined water and sewer system will continue supporting annual GOLT debt service resulting in a steady debt profile. The outlook also considers the expectation that the city will be able to accomplish reform of the police employees' retirement plan during the current legislative session, moderating the unfunded pension liability.

#### FACTORS THAT COULD LEAD TO AN UPGRADE

- Substantial increase of reserves and liquidity
- Material taxable valuation growth coupled with significantly stronger income indices
- Moderation of the pension burden

#### FACTORS THAT COULD LEAD TO A DOWNGRADE

- Substantial erosion of reserves or liquidity from a material increase in the amount of the legal settlement funded with general fund reserves or trend of deficit financial operations
- Increased net pension liabilities
- Increased debt burden, including a reduction of utility system support of GOLT debt service or additional borrowing without corresponding growth of taxable valuation
- Material contraction of the tax base

#### LEGAL SECURITY

The bonds are secured by a continuing direct ad valorem tax, within the limits prescribed by law, levied on all taxable property located within the city. The city's total tax rate is limited to \$25.00 per \$1,000 assessed

valuation (AV), but the Texas Attorney General will only permit allocation of \$15.00 of the \$25.00 maximum tax rate for general obligation debt service, including the current offering.

#### USE OF PROCEEDS

Proceeds will fund various water and sewer system improvements.

#### PROFILE

The City of Galveston occupies the 32 mile long Galveston Island, situated two miles off the coast of the Gulf of Mexico, and is the county seat of Galveston County (Aaa stable). The city is located roughly 50 miles southeast of Houston (Aa3 stable) along Interstate 45 and is a tourism, retail, recreational, and shipping center. As of 2016 the city had approximately 49,443 residents, up 3.6% since the 2010 census; 2017 US Census estimates indicate a population of 50,497.

#### METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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