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City of Lake Worth, Texas

Primary Credit Analyst(s): Paul Jasin, Dallas (1) 214-871-1424; paul_jasin@standardandpoors.com
Secondary Credit Analyst(s): James Breeding, Dallas (1) 214-871-1407; james_breeding@standardandpoors.com

Credit Profile

US\$6. mil Combination Tax
and Revenue Certificates of
Obligation, Series 2005 dtd
01/01/2005 due 09/01/2025
BBB+
Sale date: 11-JAN-2005

UPGRADED
Outstanding GO Bonds,
Various Series
To AAA / BBB+ (SPUR)
From BBB

OUTLOOK:
STABLE

Rationale

Standard & Poor's Ratings Services raised its Standard & Poor's underlying rating (SPUR) on Lake Worth, Texas' GO debt outstanding one notch to 'BBB+' from 'BBB' based on the city's expanding economic base and improving wealth levels. The outlook remains stable.

Standard & Poor's also assigned its 'BBB+' standard long-term rating, and stable outlook, to the city's series 2005 combination tax and revenue certificates of obligation.

The ratings reflect the city's:

- Good access to Fort Worth, Texas ('AA+' GO debt rating), providing additional employment opportunities to city residents;
- Low overall tax rate, providing revenue-raising flexibility; and
- Sound financial performance and position.

Offsetting credit factors include the city's:

- High overall debt levels, coupled with manageable future capital needs;
- Moderately concentrated property tax base; and
- Revenue stream, which is heavily concentrated on sales tax revenues.

The city's full faith and credit pledge and a limited pledge of the water and sewer system secure the certificates.

The three-square-mile Lake Worth, with a population of nearly 5,000, is at the intersection of State Highway 199 (Jacksboro Highway) and Loop 820. Because of its location 12 miles northwest of Fort Worth, the city has developed a sizable commercial base; the retail sector dominates the local economy with commercial valuations accounting for about 50% of the total property tax base. Due to the recent addition of big-box retailers such as a Wal-Mart Stores Inc. supercenter, a The Home Depot Inc. location, and a Lowe's Home Centers Inc. store, per capita retail sales are significant at nearly four times the national average. The addition of large retailers in the future --including Target Corp., Circuit City Stores Inc., Hobby Lobby Creative Centers, and Kohl's Corp.-- should continue to boost the city's sales tax collections. Tax base growth, which has been steady, has increased by nearly 50% since fiscal 2000 to \$255 million for fiscal 2005.

Sales tax revenues are Lake Worth's primary revenue source, creating increased exposure to economic cycles and, therefore, accounting for about 50% of fiscal 2005 budgeted general fund revenues. Due to retail growth, city officials are forecasting sales taxes to account for more than 75% of general fund revenues by fiscal 2009. Management has used excess sales tax revenues to fund onetime capital projects, build a strong fund balance, and reduce property tax rates while holding operating expenses stable. Lake Worth ended fiscal 2003 with a small operating surplus that increased the general fund balance to \$1.61 million, or 36% of expenditures. Fiscal 2004 unaudited results include a small increase in reserves to \$1.63 million, which

was above management's informal policy of maintaining 90 days' cash on hand at year-end to offset its reliance on sales taxes. The current property tax rate is a low 31 cents per \$100 of assessed value, and management plans to increase the rate by a modest two cents due to this issuance. City officials expect to incur positive operations for fiscal 2005 with a year-end fund balance of roughly \$1.8 million.

Despite self-support provided by the economic development corporation and water and sewer fund, the city's overall debt burden is a high \$3,762 per capita and 7.2% of market value. The net debt service carrying charge should remain high throughout this issue at about 15% of total expenditures. Debt amortization is adequate with 21% of debt service being retired over five years and 49% being retired over 10 years. Management will use certificate proceeds from this issuance to finance street improvements, drainage and flood control, and the acquisition of land for the future expansion of city facilities. City officials do not plan to issue any additional debt over the next five years.

Outlook

The stable outlook reflects the expectation that the city will maintain its strong financial cushion through the period of growth associated with the state highway expansion without substantially adding to its high debt burden.

Economy

With the majority of available land zoned for commercial development, Lake Worth is nearing buildout. Due to a sizable commercial presence, the 10 leading taxpayers are moderately concentrated and account for 31% of the total property tax base. Wal-Mart (7.2% of assessed value) and Ritchie Bros. Properties (5.2%) are the leading taxpayers. The city's local economy is somewhat limited with leading employers including:

- Wal-Mart (580 employees),
- Lake Worth Independent School District (435),
- Home Depot (150), and
- Albertson's Inc. (110).

Residents have good access into Fort Worth, which has a population of about 600,000, for additional employment opportunities, including nearby Lockheed Martin Corp. and the Joint Reserve Naval Air Station. Wealth levels are a slightly below-average 99% and 97% of state and national levels, respectively. County unemployment of 5.7% through September 2004 was on par with state and national rates.

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