

City of Sachse, Texas

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Credit Profile

US\$34.54 mil General Obligation Refunding and Improvement Bonds, Series 2009 dated 02/01/2009, due 02/15/2034

Long Term Rating	AA-/Stable	New
Outstanding General Obligation Refunding and Improvement Bonds, Various Series		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Sachse, Texas' general obligation (GO) debt to 'AA-' from 'A' due to the city's good management practices and very strong financial position.

Standard & Poor's also assigned its 'AA-' standard long-term rating to Sachse's \$34.5 million series 2009 GO refunding and improvement bonds.

The ratings reflect the city's:

- Status as a bedroom community, with close proximity to the diverse Dallas metropolitan statistical area (MSA) economy and labor market;
- Very strong wealth and income levels; and
- Historically very strong general fund reserves.

Factors that constrain the rating include the city's rapidly growing predominately residential tax base, which places significant pressures on the city to meet increasing demand for services and capital needs.

An ad valorem property tax pledge secures the bonds. Officials will use bond proceeds to refund a portion of their debt outstanding, finance improvements to municipal parks, streets and roads, and police and fire station facilities, and for acquiring a city hall facility.

Sachse, with a growing population of about 18,975, is a small, developing suburban city in northeastern Dallas County, 20 miles northeast of downtown Dallas, Texas ('AA+' GO rating) and six miles east of Garland, Texas ('AA' GO rating). Most residents commute throughout the Dallas MSA for employment. The city's economy is greatly influenced by the industrial, commercial and residential growth of several nearby Texas cities including Garland, Plano, Richardson, and North Dallas. Infrastructure improvements made with bond proceeds and the completion of the extension of President George W. Bush Turnpike to Interstate 30 will provide greater access to the city and promote additional commercial growth. The President George W. Bush Turnpike is expected to traverse a portion of Sachse, and is expected to be complete in 2010. A Kroger grocery store, several banks, a National Tire and Battery, and a Walgreens opened in fiscal 2005. The city's income levels are very strong: Median household and per capita effective buying income stood at 158% and 116% of national average, respectively. The Dallas County unemployment rate of 4.5% was in line with state (4.3%) and national (4.6%) rates for 2007.

The property tax base has increased 35% in value, mostly residential development, since fiscal 2005 to \$1.2 billion for fiscal 2009. Assessed value (AV) increased by 6% within the past year. The average value of a new home is approximately \$285,000. The number of residential building permits issued by the city in fiscal 2008 declined to 176 from 282 issued in fiscal 2006 due to a slight slowdown in the residential market felt throughout the area. Officials expect buildout to occur within five to 10 years. The property tax base is predominately residential; single-family residential property accounted for 84% of fiscal 2009 total AV. The 10 leading taxpayers account for just 3.9% of market value.

Despite growth-related pressures, Sachse's financial results have remained very strong over the past five years with general fund reserves ranging between 31%-40%. The city ended fiscal 2007 with a \$3.4 million unreserved general fund balance or very strong 38.3% of expenditures which is very strong in our opinion. Property tax revenues, the leading revenue source, accounted for 56.9% of fiscal 2007 general fund revenues, while sales tax accounted for 18.7%. For fiscal 2008, the unaudited general fund ends in a slight drawdown of \$52,000, or an unreserved general fund balance at \$3.1 million or 32% of expenditures. This is well above the city's 15% minimum general fund balance policy. As the property tax base has expanded, the property tax rate has increased to 61 cents per \$100 of AV in fiscal 2009 from 55 cents in fiscal 2008. City officials have budgeted to draw down reserves by \$300,000 for one-time capital expenditures, resulting in a decline in reserves to 31% of expenditures in fiscal 2009 but is still considered strong in our opinion.

Standard & Poor's deems Sachse's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Overall debt burden increased from average at \$2,387 per capita and 4.0% of market value in fiscal 2008 to high at \$5,001 per capita and moderately high at 6.4% of the fiscal 2009 market value. Debt service carrying charges are low at 6% of fiscal 2007 expenditures. Debt amortization is below average with only 48% of total principal being retired over 20 years. The city does not have any authorized but unissued bonds remaining and management has indicated that they do not plan to hold another bond election within the next two years.

Outlook

The stable outlook reflects our expectation that the city's strong reserves, competitive tax rate and prospects for non-residential development will allow it to adequately address growth-driven operational and capital challenges while still maintaining an overall financial position commensurate with the rating level.