

# RatingsDirect®

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## Summary:

# Coppell, Texas; General Obligation

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## Summary:

# Coppell, Texas; General Obligation

### Credit Profile

US\$12.04 mil GO rfdg bn ds ser 2013 dtd 07/01/2013 due 02/01/2026

*Long Term Rating* AAA/Stable New

US\$9.9 mil comb tax & ltd surplus rev certs of oblig ser 2013 dtd 07/01/2013 due 02/01/2033

*Long Term Rating* AAA/Stable New

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Coppell, Texas' series 2013 general obligation (GO) refunding bonds and series 2013 combination tax and limited surplus revenue certificates of obligation. At the same time, we affirmed our 'AAA' underlying rating (SPUR) on the city's existing GO debt. The outlook on all ratings is stable.

In our opinion, the rating reflects the city's:

- Deep, diversified economic and employment base, along with access to the strong Dallas-Fort Worth metropolitan statistical area (MSA);
- Very strong wealth and incomes;
- Conservative and sophisticated financial and debt management policies that include long-range budget and capital plans; and
- Very strong general fund reserves, coupled with conservative budgeting.

The series 2013 bonds and certificates are secured by the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the city. In addition, the certificates are secured by a limited pledge (not to exceed \$1,000) of the surplus revenues of the city's waterworks and sewer system. Proceeds from the bonds and certificates will be used to finance various construction and improvement projects in the city, and to refund a portion of the city's existing debt for interest rate savings.

Coppell is about 20 miles from downtown Dallas and Fort Worth, where it borders Dallas-Fort Worth International Airport. Because of excellent access to state highways and interstates, city residents have convenient access to a wide array of jobs. In our opinion, city incomes are very strong: Median household effective buying income indicators are 203% of national levels and market value is an extremely strong \$126,644 per capita.

Assessed value (AV) growth has moderated recently as the city has begun to approach build-out. After a slight decline in 2011, AV has increased by 7.5% over the past five years to \$4.95 billion in fiscal 2013. Preliminary values for AV in fiscal 2014 show an increase to over \$5.0 billion, but city management has budgeted for flat growth in AV to be conservative. Amazon is completing a 1.5-million-square foot fulfillment center, which potentially could employ over 1,000 people. Currently, about 55% of the property tax base consists of single-family residential development. The city's residential property is essentially built out; and officials are projecting commercial build-out in about eight years,

at which time the tax base should be almost evenly split between residential and commercial properties. The tax base, in our opinion, is very diverse, with the 10 leading taxpayers accounting for just 8% of total AV.

We believe that Coppell's financial performance has been very strong. Despite growth pressures and an elevated debt service carrying charge, management has achieved operating surpluses in each of the past eight fiscal years. Due to conservative budgeting, the city closed fiscal 2012 with a \$7.5 million operating surplus that increased the GASB 54 available general fund balance to \$23.6 million, or what we consider a strong 54.6% of expenditures. The city's combined property tax rate, at 69 cents per \$100 of AV, is higher than comparable cities in the Dallas-Fort Worth MSA. The city is projecting the fund balance to increase by approximately \$1 million in fiscal 2013 due to conservative budgeting and sales tax revenue growth. The city's sales tax accounts for roughly 35% of the total general fund revenues, and year-to-date, management reports that sales tax revenues are up over last year. Management is expecting to adopt a balanced budget for fiscal 2014 and expects that revenues will once again exceed expenditures.

Standard & Poor's Ratings Services considers Coppell's financial management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable.

The city participates in the statewide Texas Municipal Retirement System (TMRS) for pension benefits. For fiscal year 2012, Coppell contributed 100% of its annual required contribution, which totaled almost \$2.1 million or about 5.2% of total governmental expenditures. The city also provides other postemployment benefits (OPEBs) in the form of health insurance benefits. The city has its own single-employer defined-benefit plan, which it pays on a pay-as-you-go basis. In 2012, the city did not need to make a contribution. The total unfunded liability has increased to \$769,000, which the city is contemplating setting up as a trust.

In our opinion, overall net debt is a high \$6,336 per capita and a moderate 4.8% of fiscal 2013 market value. About 65% of the debt burden is attributed to overlapping debt, primarily from Coppell Independent School District. Debt service on the city's GO bonds accounted for an elevated 20% of total operating expenditures due, in part, to above-average debt service amortization: About 76% of GO debt principal is due to be retired over the next 10 years, and 100% over 20. Due to a declining debt service schedule, the city's carrying charge should continue to moderate.

## **Outlook**

The stable outlook reflects our expectation that the rating will not change within the two-year parameter of the outlook based on Coppell's economic growth; strong finances; and current debt profile, allowing management to sustain healthy reserves and continue to moderate the debt burden. The stable outlook also reflects Coppell's strong financial and capital management policies, which have helped facilitate citywide growth.

## **Related Criteria And Research**

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

**Ratings Detail (As Of June 27, 2013)**

Coppel GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

**Coppel GO**

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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