MOODY'S
INVESTORS SERVICE

New Issue: Moody's upgrades to Aaa the City of Coppell's, TX GO bonds

Global Credit Research - 25 Jun 2013

COPPELL (CITY OF) TX
Cities (including Towns, Villages and Townships)
TX

Moody's Rating

ISSUE		RATING
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2013		Aaa
Sale Amount	$9,900,000	
Expected Sale Date	06/21/13	
Rating Description	General Obligation Limited Tax	
General Obligation Refunding Bonds, Series 2013		Aaa
Sale Amount	$12,040,000	
Expected Sale Date	06/21/13	
Rating Description	General Obligation Limited Tax	

Moody's Outlook NOO

Opinion

NEW YORK, June 25, 2013 --

Moody's Investors Service has upgraded to Aaa the City of Coppell's, TX general obligation bond rating. At the same time, we have assigned Aaa to the City of Coppell's, TX $12 million General Obligation Refunding Bonds, Series 2013, and $9.9 million Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2013. Proceeds from the sale of the refunding bonds will be used to refund certain maturities of the city's Series 2004 and 2006 bonds for an expected net present value savings in excess of 10%. The certificates of obligation will be used to make street and drainage improvements throughout the city.

SUMMARY RATINGS RATIONALE

The bonds and certificates are secured by an annual ad valorem tax levied against all taxable property in the city within the limits prescribed by law. The certificates are additionally secured by a limited pledge (not to exceed $1,000) of the surplus revenues of the City's Waterworks and Sewer System. The upgrade to Aaa reflects the strong underlying credit quality of the city including a moderately sized tax base with a favorable location, a history of strong financial performance that have yielded ample reserves, strong socio economic indices comparable to the medians for the rating category, and a manageable debt portfolio with a direct debt burden that is somewhat high for the rating category.

STRENGTHS

History of strong financial performance marked by ample reserves

Strong socio-economic indices

Moderately sized tax base that experienced flat growth despite challenges in the national economy

WEAKNESSES

Above median debt burdens

DETAILED CREDIT DISCUSSION

HISTORICALLY STRONG FINANCIAL PERFORMANCE YIELDS AMPLE RESERVES;

Moody's believes the city has demonstrated a trend of solid financial management evidenced by the ample reserves in the General Fund in excess of the city's combined charter and reserve policy. The city's charter calls for a reserve requirement equal to 10% of next year's budget. On top of the charter, the city has created a General Fund policy that calls for a minimum of 15% in expenditures. The General Fund has a history of strong financial operations with multiyear surpluses totaling over $20 million over the past five years, growing the balance to $53 million (an ample 99.2% of General Fund revenues) in fiscal year 2012. The unassigned portion at the end of the year was $20.5 million (44.3% of General Fund revenues). However, Moody's notes that the city has $4.6 million non-spendable balance that satisfies the 10% city charter reserve requirement, and another $6.9 million committed that satisfies the 15% fund balance policy. As such, the total available General Fund balance was $32 million, equal to a strong 59.9% of General Fund revenues, at the end of the fiscal year. In fiscal year 2013, the city adopted a surplus budget. Year to date, officials report that the budget is faring in line with original expectations. Sales taxes, which account for about 20% of revenues are reporting strong collections with an increase of 15% over the prior year. At fiscal year-end, officials expect to add another $2 million to reserves. Preliminarily for fiscal year 2014, officials report that the budget process is underway. With minimal changes in expenditures, and continued growth in revenues, officials expect a subsequent increase of $2 - $3 million in reserves. The city's strong financial history and sizeable reserves that were maintained despite the downturn are key drivers of the upgrade.

The city remains a participant in the Texas Municipal Retirement System, a statewide pension system. In fiscal year 2011, the annual required contribution was $3.7 million or 6.9% of General Fund revenues. The city has historically made 100% of its annual required contribution (ARC) and it is expected this practice will continue over the long term. As of December 31, 2011, the city reported an 82.2% funded ratio, with an unfunded liability of $16.7 million. The city also offers Other Post Employment Benefits (OPEB) in the form of health care to its employees. The city currently funds this obligation on a pay as you go basis. In fiscal year 2012, the city's annual OPEB cost was $221,407 (0.4% of General Fund revenues), and the city contributed 3.6%. If the city had contributed 100% of the cost, the General Fund would have still reported positive operations. As of December 31, 2010, the most recent actuarial valuation date, the city reported an unfunded OPEB liability of $1.7 million and the plan was zero percent funding. Officials report that the city is weighing the establishment of a trust over the near term to manage the obligation. Given it's minimal amount compared to the city's budget, we believe that this obligation will remain affordable over the near to medium term.

The city received majority of its fiscal year 2012 revenues from three sources: taxes, penalties and interest (77%), charges for services (9.6%), and transfers in (4.4%) which are formula driven for administrative costs associated with the utility system, and franchise fees. In fiscal year 2012, the city levied a total of $6.91 per $1,000 of assessed values with $4.96 allocated to maintenance and operations, and $1.95 allocated to debt service. In fiscal year 2013, the levy was reduced to $6.70 with $4.66 allocated to maintenance and operations, and $2.05 allocated to debt service. With the total levy, the city remains well below the state maximum of $25 per $1,000 of assessed values. Including the sale and going forward, officials expect tax rates will remain flat, and eventually decrease with growth in assessed values.

FAVORABLY LOCATED IN THE DALLAS FORT WORTH METROPOLITAN AREA IN CLOSE PROXIMITY TO THE DFW INTERNATIONAL AIRPORT; STRONG SOCIO-DEMOGRAPHIC PROFILE

Located in Dallas County (Aaa/stable outlook), Coppell is approximately 18 miles from downtown Dallas (Aa1/stable outlook), and 10 minutes from the DFW International Airport. The city's tax base and taxable value history is consistent with similarly rated Aaa credits. Traditionally a bedroom community, the city has experienced considerable commercial activity in its eastern portion that has helped diversify the base. Currently, single family residences account for approximately 54.9% of the total base, while real commercial accounts for 17.6%, and tangible commercial accounts for 17.5%. Officials note the city is built out from a residential perspective, but has between 600 - 700 acres of land available for commercial development. Officials anticipate that ongoing development will improve the diversity of the base to a makeup that is 50% commercial, and 50% residential in the intermediate term. Over the past five years, taxable values within the city grew an annual average of 1.5% with the growth pace moderating in the past couple of years. Despite the economic downturn, taxable values remained relatively flat with a modest decline of 0.8% in fiscal year 2011, and 0.2% in fiscal year 2012. In fiscal year 2013, taxable values grew 3.3% to just under $5 billion. Officials report several developments that should grow taxable values in the near to medium term. Of notable mention include a high tech distribution center for a major retailer which is expected to open in the fall, several medical and industrial developments, and retail and residential developments with homes in the $500,000 to $700,000 price range. Preliminary values for fiscal year 2014, indicate continued growth in taxable values with an estimated increase of 9.5%; officials will conservatively use 3.5% for budgeting purposes. The top ten taxpayers are diverse, and account for a moderate 7.8% of total taxable values in fiscal year 2013. Over the long term, we believe the city's potential for commercial activity given the moderate availability of land, and its close proximity to the DFW International airport that is well suited to serve the business needs of companies will yield growth in taxable values.

The city exhibits strong socio-economic indicators. Per the 2010 American Community Survey (ACS) the median family and per capita incomes were 192% and 170.1% of the nation. The April 2013 unemployment rate within the city was 5.9%, which was comparable to the state's 6.1%, but lower than the nation's 7.1% taken during the same time period.

SLIGHTLY ELEVATED DEBT BURDENS

All of the city's debt is fixed rate and the city is not party to any derivative agreements. Including the sale, the city's debt burdens are manageable at 1.7% direct (4.7% overall). Payout is average with 70.9% of principal retired in 10 tears. Following this issue, the city has $1.9 million in authorized but unissued debt. There are no other debt issuance plans. Absent debt issuance plans, we expect that the city's debt burden will remain manageable over the intermediate to long term.

WHAT COULD MAKE THE RATING GO UP - N/A

WHAT COULD MAKE THE RATING GO DOWN

Erosion of current available reserves

significant taxable value decline

KEY STATISTICS:

2013 Full Valuation: $5 billion

2013 Full Value Per Capita: $126,904

Direct Debt Burden: 1.7%

Overall Debt Burden: 4.7%

Payout of principal: 70.9%

2012 Total General Fund balance: $53 million (99.2% of General Fund revenues)

General Obligation Limited Tax (GOLT) Debt Outstanding: $82.1 Million

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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