

RatingsDirect®

Summary:

Coppell, Texas; General Obligation

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| Credit Profile | | |
|--|------------|----------|
| US\$49.81 mil comb tax and ltd surplus rev certs of oblig ser 2024 dtd 07/01/2024 due 02/01/2044 | | |
| Long Term Rating | AAA/Stable | New |
| Coppell GO | | |
| Long Term Rating | AAA/Stable | Affirmed |
| Coppell GO | | |
| Long Term Rating | AAA/Stable | Affirmed |
| Coppell GO | | |
| Long Term Rating | AAA/Stable | Affirmed |

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Coppell, Texas' \$49.8 million series 2024 combination tax and limited surplus revenue certificates of obligation.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's general obligation (GO) debt outstanding.
- The outlook on all ratings is stable.

Security

Coppell's bond and certificates constitute direct obligations of the city payable from the levy and collection of a direct and continuing annual ad valorem tax levied on all taxable property within Coppell, within the limits prescribed by law. The certificates are additionally secured by a limited \$1,000 pledge of surplus net revenues of the city's waterworks and sewer system. Despite state statutory tax-rate limitations, we do not differentiate between Coppell's limited-tax debt and the city's general creditworthiness, because the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources.

Proceeds from the sale of the certificates will be used for a major road reconstruction, a new fire station, a new service center, and remodeling of the current service center as well as water and sewer system projects.

Credit overview

Coppell continues to benefit from its location near the Dallas-Fort Worth metropolitan statistical area, with annual increases on the tax base and strong wealth and income levels. The city's experienced management team practices conservative budgeting as evidenced by year-end operating surpluses. Due to its location near the Dallas-Fort Worth (DFW) International Airport, Coppell has a significant number of warehouses and distribution centers that have historically produced strong sales taxes for the city and currently account for about 25% of general fund revenues; however, there could be a change in online sales taxes where revenues would be collected in the destination city rather than the city of origin. Cities throughout Texas, including Coppell, and the state's comptroller office are parties to an

ongoing lawsuit regarding this change because of the negative impact it could have on these cities. The outcome is unknown, but Coppell has been planning for this change since 2019 and has adjusted its annual budgets to assume a significant 60% decrease in sales tax collections (totaling about \$10 million in the general fund and \$20 million across all funds) if the proposed change goes into effect. Sales tax collections above the baseline assumption are used only for one-time purposes such as capital or building reserves. We believe Coppell's good financial management practices and current level of reserves will support the city's financial stability as Coppell potentially transitions into a smaller operating budget. Although debt remains a credit weakness, there are no plans for additional debt and consistent tax base growth keeps the debt burden stable.

The rating further reflects our view of the city's:

- Ongoing tax base growth due to its favorable location, although as Coppell approaches full build-out, there is a focus on redevelopment and strategic decisions about new projects where land is available; officials noted that more than 50 new businesses have located within the city during fiscal 2024 and there are several active new projects underway including hotels, office space, and retail.
- Strong financial policies and practices, including conservative budget assumptions, consultations with experts to forecast economic trends; consistent budget monitoring; use of long-term financial projections, formal capital improvements, and investments; robust debt management and fund balance policies, along with a strong institutional framework score;
- Very strong reserves, with unaudited results for fiscal 2024 reflecting the same nominal amount as fiscal 2023; although about a \$28 million use of reserves has been planned for fiscal 2025 to fund the infrastructure maintenance fund for future facilities and traffic needs of the city, the general fund balance will remain over 100% of expenditures; and
- Pension and other postemployment benefits (OPEB) obligations that are not a budget pressure given the well-funded status (85%) of Coppell's pension plan and manageable annual pension and OPEB expenses as a percentage of the budget.

Environmental, social, and governance

We view Coppell's environmental, social, and governance factors as neutral in our credit rating analysis.

Rating above the sovereign

The city's GO bonds are eligible to be rated above the sovereign because we believe Coppell can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments are considered to have moderate sensitivity to country risk. Coppell's locally derived revenues are the source of security for the bonds, and the institutional framework in the U.S. is predictable with significant U.S. local government autonomy. In a potential sovereign default scenario, U.S. local governments would maintain financial flexibility through the ability to continue collecting locally derived revenues and U.S. local governments have independent treasury management.

Outlook

The stable outlook reflects our view that Coppell will maintain stable budgetary performance and very strong levels of reserves, supported by consistent tax base and revenue growth during the two-year outlook horizon. Therefore, we do not anticipate changing the rating during this time.

Downside scenario

We could lower the rating if budgetary performance were to weaken materially whether due to structural imbalance or one-time expenditures or if the debt burden were to increase significantly.

| Coppell, Texas--Key credit metrics | | | | |
|---|-------------|------------------------|-----------|---------|
| | Most recent | Historical information | | |
| | | 2023 | 2022 | 2021 |
| Very strong economy | | | | |
| Projected per capita EBI % of U.S. | 157.6 | | | |
| Market value per capita (\$) | 247,823.4 | | | |
| Population | | 42,414 | 43,215 | 43,373 |
| County unemployment rate(%) | | | 3.7 | |
| Market value (\$000) | 10,511,180 | 9,604,559 | 8,727,486 | |
| Ten largest taxpayers % of taxable value | 11.5 | | | |
| Strong budgetary performance | | | | |
| Operating fund result % of expenditures | | 18.4 | 42.5 | 36.0 |
| Total governmental fund result % of expenditures | | 50.2 | 39.4 | 32.0 |
| Very strong budgetary flexibility | | | | |
| Available reserves % of operating expenditures | | 198.0 | 204.7 | 157.1 |
| Total available reserves (\$000) | | 123939 | 118261 | 91907 |
| Very strong liquidity | | | | |
| Total government cash % of governmental fund expenditures | | 350.8 | 302.2 | 259.3 |
| Total government cash % of governmental fund debt service | | 2,835.3 | 1,403.3 | 1,943.2 |
| Very strong management | | | | |
| Financial Management Assessment | Strong | | | |
| Weak debt & long-term liabilities | | | | |
| Debt service % of governmental fund expenditures | | 12.4 | 21.5 | 13.3 |
| Net direct debt % of governmental fund revenue | 111.1 | | | |
| Overall net debt % of market value | 4.2 | | | |
| Direct debt 10-year amortization (%) | 51.3 | | | |
| Required pension contribution % of governmental fund expenditures | | 6.1 | | |
| OPEB actual contribution % of governmental fund expenditures | | 0 | | |
| Strong institutional framework | | | | |

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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