

CREDIT OPINION

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Coppell (City of) TX

Update to credit analysis

Summary

The [City of Coppell's, TX](#) (Aaa) credit profile benefits from the city's strong resident wealth and income profile as well as its prime location within the Dallas/Fort Worth metro area. The city's tax base, which reached a sizable \$8 billion for fiscal 2020, has experienced solid growth over the last five years averaging 7.5% annually. Per estimated certified values, the fiscal 2021 full value will continue to grow, but future years' growth and reevaluation may be impacted by the current pandemic driven economic downturn. The city's location near Dallas-Fort Worth International Airport has driven a lot of commercial and industrial developments, but the city still boasts a desirable residential draw. Resident wealth levels are very strong with a median family income that represents 196.3% of the US. The city's unemployment rate has risen considerably due to the pandemic cause economic downturn to 10.4% as of May 2020, in comparison to a very low 2.5% in just the prior year. Although the unemployment rate is high, it is lower than the state (12.7%) and national (13%) levels for the same time period.

The profile is further strengthened by a steady history of very strong reserves supported by multiple years of solid operating performance. After five consecutive general fund surpluses, the city's available general fund balance increased to \$65.7 million, or a very strong 88.8% of fiscal 2019 revenues. Inclusive of the debt service fund, available reserves increase to \$66.7 million and represent a strong 83.4% of total operating revenues. Management anticipates to maintain balanced operations and reserves levels through in 2020 despite initial expectations of revenue impacts caused by the pandemic. Sales tax collections, which account for roughly 25% of general fund revenues, have remained resilient through the downturn and are expected to reach originally budgeted amounts by the end of the fiscal year. Management reports that the city will be impacted by new internet sales tax law that goes into effect for fiscal 2022. Although this reduce sales tax collections by roughly 60% for the city, management has already taken the necessary budgetary actions to right-size the budget a year in advance of the law going into effect. Property taxes remain the city's largest revenue stream, which are expected to remain stable.

While the city's debt burden is slightly elevated relative to Aaa rated peers, pension and OPEB liabilities are moderate and overall fixed costs are manageable, providing operating flexibility. Inclusive of the Series 2020 issuance, the city's debt burden equates to 1.4% of the fiscal 2020 full value. The city's Moody's adjusted net pension liability of \$102 million represented a manageable 1.3 times the city's operating revenues. Fixed costs consumed roughly 17% of operating revenues, which is modest. Management plans to issue additional debt over the next few years, but the burden is expected to remain manageable given ongoing growth and average principal amortization on outstanding debt.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Coppel given the city's strong liquidity and year-to-date results exhibiting resiliency so far in the pandemic. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Coppel changes, we will update our opinion at that time.

Credit strengths

- » Sizable tax base with strong resident income indices
- » History of strong operating performance and very strong reserves
- » Modest debt and pension burden

Credit challenges

- » Tax base is smaller than similarly rated peers
- » Sales tax collections will decline in fiscal 2022 due to sales tax law change

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Tax base contraction
- » Trend of operating imbalance and/or inability to balance recurring budget after implementation of new sales tax laws
- » Significant debt issuance absent corresponding increase in tax base

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

Coppell (City of) TX	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$5,616,353	\$6,175,598	\$6,664,501	\$7,015,047	\$7,597,798
Population	40,602	40,631	41,138	41,512	41,100
Full Value Per Capita	\$138,327	\$151,992	\$162,004	\$168,988	\$184,861
Median Family Income (% of US Median)	196.1%	194.7%	193.1%	196.3%	196.3%
Finances					
Operating Revenue (\$000)	\$60,848	\$64,701	\$69,379	\$72,637	\$79,942
Fund Balance (\$000)	\$38,969	\$41,201	\$47,962	\$54,766	\$66,677
Cash Balance (\$000)	\$62,146	\$62,671	\$60,989	\$67,090	\$78,141
Fund Balance as a % of Revenues	64.0%	63.7%	69.1%	75.4%	83.4%
Cash Balance as a % of Revenues	102.1%	96.9%	87.9%	92.4%	97.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$65,935	\$70,360	\$63,645	\$89,180	\$82,020
3-Year Average of Moody's ANPL (\$000)	\$65,426	\$72,451	\$85,282	\$91,592	\$99,209
Net Direct Debt / Full Value (%)	1.2%	1.1%	1.0%	1.3%	1.1%
Net Direct Debt / Operating Revenues (x)	1.1x	1.1x	0.9x	1.2x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.2%	1.2%	1.3%	1.3%	1.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.1x	1.1x	1.2x	1.3x	1.2x

Operating revenue, fund balance, and cash balance are the city's general & debt service funds combined

Source: City of Coppell, TX, US Census Bureau; Moody's Investors Service

Profile

The City of Coppell is primarily located in [Dallas County](#) (Aaa stable) with a very small portion in [Denton County](#) (Aaa stable). The city covers roughly 14.7 square miles near the DFW International Airport ([Dallas Fort Worth International Airport Board, TX](#) - A1 stable). The city has approximately 41,290 residents.

ESG considerations

ENVIRONMENTAL

Coppell is part of the Great Plains region per the National Climate Assessment, which is expected to experience irregular and extreme water stress, which can manifest as high rainfall and flooding or water supply stress, as well as heat stress. These environmental shifts are expected to continue to evolve over the long term. The city maintains long term capital plans to help mitigate some of its exposure.

SOCIAL

Demographic trends including population, wealth, and income indices in the city are favorable. For more information about social considerations, please see the summary above.

GOVERNANCE

The city operates under a Council/Manager form of government with a City Council comprised of the Mayor and seven Council members.

Texas Cities have an Institutional Framework score of "Aa," which is strong. The sector's major revenue sources (property taxes and sales taxes) account for about a third of revenue each and are subject to a cap; the remaining third is derived from other fees and is not subject to a cap. Property taxes, are subject to a statutory cap of \$25 per \$1,000 of assessed values, with no more than \$15 allocated for debt. Most cities are well under the cap, and on an annual basis can increase their property tax revenue by 8% on existing property without voter approval. Starting with fiscal 2021 budgets, the cap is reduced to 3.5% on existing property, absent voter approval. Most cities are at the sales tax cap for operating purposes. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures and are primarily debt service expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Coppell (City of) TX

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$8,045,617	Aa
Full Value Per Capita	\$194,856	Aaa
Median Family Income (% of US Median)	196.3%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	83.4%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	37.1%	Aaa
Cash Balance as a % of Revenues	97.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	21.6%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.3%	Aa
Net Direct Debt / Operating Revenues (x)	1.3x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.2%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.2x	A
Notching Factors: ^[2]		
Standardized Adjustments [3]: Unusually strong or weak security features: Secured by statute		Up
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication

Source: City of Coppell, TX, US Census Bureau; Moody's Investors Service

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