S&P Global Ratings

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Summary:

Coppell, Texas; General Obligation

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Credit Profile		
US$28.565 mil comb tax & ltd surplus rev certs of oblig ser 2020 dtd 08/15/2020 due 02/01/2040		
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
Coppell GO (AMBAC)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Coppell GO (MBIA) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the City of Coppell, Texas' $28.5 million combination tax and limited surplus revenue certificates of obligation, series 2020. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's general obligation debt outstanding. The outlook is stable.

The 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 the city, within the limits prescribed by law, and from a limited pledge of $1,000 of the surplus net revenues of the city's waterworks and sewer system. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax debt and its 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, which supports our view of the city's overall ability and willingness to pay debt service.

Proceeds from the sale of the certificates will be used for projects throughout the city including constructing, improving, and equipping public safety facilities for the fire department and acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the city's waterworks and sewer system.

Credit overview

Coppell's key credit metrics, including year-to-date fiscal performance, are stable despite difficulties caused by the COVID-19 pandemic. The city has established a long trend of stable fiscal performance, which is supported by consistent positive budget variances and well-established fiscal management practices. The city also has made midyear course corrections as it anticipated a change to sales tax collections as a result of state legislation.. We believe the city should have the financial flexibility to withstand any revenue declines brought on by the pandemic or legislation that affects sales tax collections. Long-term effects will depend on the severity of the recession. (For more information, see "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect.) Future credit reviews will focus on what influence the current situation has on the city and Coppell's ability to respond in a timely and appropriate fashion to ensure maintenance of stable key credit metrics.

Key credit considerations include:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 95% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.9x total governmental fund expenditures and 14.9x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 13.1% of expenditures and net direct debt that is 121.0% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our analysis of these risks encompasses our review of environmental, social, and governance risks that currently exist. Most notably, the ongoing pandemic and the social risk arising from it have led to implementing social distancing measures and restricted traditional commerce, as suggested by state and local governments to limit the coronavirus' spread. As a consequence, certain key revenues such as sales taxes could weaken materially. We have also analyzed the environmental risks and have determined that they are in line with our view of the sector standard. We acknowledge the city's very strong management, with strong financial policies and practices, as a positive factor as it relates to the city's overall creditworthiness.

Stable Outlook

Downside scenario

While unlikely, weak and sustained fiscal performance leading to a material reduction in the city's budgetary performance or a weakening reserve and liquidity position to levels we no longer consider strong could place negative pressure on the rating.

Credit Opinion

Very strong economy

We consider Coppell's economy very strong. The city, with an estimated population of 42,187, is located in Dallas and Denton counties in the Dallas-Fort Worth-Arlington, TX MSA, which we consider broad and diverse. The city has projected per capita effective buying income of 173% of the national level and per capita market value of $190,713. Overall, the city's market value grew by 5.9% over the past year to $8.0 billion in 2020. The weighted-average unemployment rate of the counties was 3.5% in 2019.

Coppell is located about 18 miles northwest of downtown Dallas and 24 miles northeast from Fort Worth, where it borders Dallas-Fort Worth International Airport. Residents benefit from direct connections to state highways and interstates, which provides excellent access throughout the broad and diverse Dallas-Fort Worth-Arlington MSA for employment. Coppell's strategic and favorable location in the MSA, as well as its location near the airport, supports stability in the city's market value over time, as well as above-average wealth and income indicators and historically below-average unemployment.

The city's taxable value has grown to more than $8 billion as of 2020. The tax base primarily consists of single-family residential properties (51% of the total tax base), commercial properties (18.5%), and 22% tangible personal commercial properties associated with a large area of distribution centers and warehouses. The top 10 taxpayers make up a modest 9.5% of the total tax base, are relatively diverse, and include several offices, warehouses, and multi-family residential complexes.

Despite continued impacts of the pandemic, officials do not anticipate business disruptions will significantly affect the city. In the recent past, numerous commercial developments, including the two new fulfillment centers from Amazon and significant expansions from other existing businesses, have been established in the city. In addition, various hotels are currently under construction. City officials anticipate high single-digit growth in taxable values from the previous year, which is a conservative assumption based on preliminary values. Given the ongoing development combined with Coppell's favorable location, we expect the city's economy will remain very strong during the outlook period.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights of the city's policies include the use of historical trend analysis of revenues and expenditures in the development of budget assumptions, based on historical trends dating at least three years. The city also consults with local economic development organizations to access future trends. Coppell retains the ability to amend the budget on an ad hoc basis, with city officials providing monthly budget-to-actual reports to council. As part of its formal annual budget process, the city provides a five-year financial plan that identifies both revenues and expenditures with meaningful assumptions. It also maintains a formal five-year capital improvement plan (CIP), which identifies project costs and corresponding funding sources. Coppell has a formal investment management policy with holdings reports provided at least quarterly. The formal debt management policy is closely monitored and incorporated during the budget process and is supported by a set of robust internal policies, which include both qualitative and quantitative restrictions. Quantitative metrics include maximum maturity benchmarks, a minimum 4% net present value savings on refundings, and direct debt not to exceed 3% of the city's assessed value. The reserves policy is set at 25% of operating expenditures.

Adequate budgetary performance

Coppell's budgetary performance is adequate in our opinion. The city had operating surpluses of 20% of expenditures in the general fund and of 19.1% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2019 results in the near term.

The city's budgetary performance remains solid overall; however, our assessment of adequate incorporates risks to future revenues associated with negative impacts from the pandemic as well as a change in how sales tax receipts will be accounted for. Fiscal 2019 performance was solid and stable; general fund revenues of $73.9 million (including transfers and other analytical adjustments) outpaced expenditures of $60.3 million. Stable growth in the city's property and sales tax collections, as well as generally flat expenditures, allowed for the operating surplus.

Before the onset of the pandemic, Coppell made significant spending cuts because it was anticipating a change to sales tax collections due to recent state legislation. Accordingly, the city prepared for a drastic 60% reduction in sales tax collections by establishing a hiring freeze, reducing capital expenditures, and cutting discretionary spending by $5 million. It took these actions when the pandemic began to significantly spread in the region.

Despite the difficult situation and uncertainty about the future, the city reports sales tax collections and other revenues are coming in above the amended budget. The city's expenditures also remain line with expectations. If current trends hold stable, Coppell anticipates breakeven results for fiscal 2020 and will likely carry prudent measures into fiscal 2021. Through a history of strong and stable budgetary performance, as well as very strong fiscal management practices, the city has demonstrated a broad and well-embedded culture of fiscal discipline that we expect will continue despite the revenue pressures it is facing.

Very strong budgetary flexibility

Coppell's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 95% of operating expenditures, or $57.5 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Coppell has historically maintained very strong reserve levels, which provide substantial flexibility above its formal reserve policy of 25%. In addition, we believe that, in keeping with its traditionally conservative budgeting practices, the city will likely continue to budget for balanced operations annually, and will make intra-year expenditure and revenue adjustments to outperform the budget at year-end, despite current fiscal difficulties.

Very strong liquidity

In our opinion, Coppell's liquidity is very strong, with total government available cash at 1.9x total governmental fund expenditures and 14.9x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

Historically, the city has had what we consider very strong cash balances. We do not believe its cash position will deteriorate over the next two years. All investments comply with state guidelines, which we do not consider aggressive. Coppell is not exposed to contingent liabilities that, in our opinion, could cause immediate or future material liquidity pressure. Its access to the market in the past 20 years and issuance of mainly tax-backed, partial revenue-supported debt, and sales tax bonds demonstrate its strong access to external liquidity.

Weak debt and contingent liability profile

In our view, Coppell's debt and contingent liability profile is weak. Total governmental fund debt service is 13.1% of total governmental fund expenditures, and net direct debt is 121.0% of total governmental fund revenue.

Revenue backed debt supported through the city's enterprise fund has been adjusted in our direct debt-to-revenue calculations. Officials have additional debt plans in the next two years, of about $35 million to $40 million, which is in line with the city's CIP. Despite routine borrowing, current amortization schedules and anticipated growth should support a stable debt profile. Coppell does not have any swaps, private placement, or variable-rate debt. We do not expect a material change to the city's debt profile in the two-year outlook.

Pension and other postemployment benefits

Coppell's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.1% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

We do not anticipate any near-term budgetary or fiscal pressures linked to the city's involvement in its pension or OPEB obligations. Coppell currently participates in the following plans:

- Texas Municipal Retirement System (TMRS), 83% funded ratio and a net pension liability of $27.5 million;
- OPEB provided to all retirees on a pay-as-you-go basis through the TMRS; and
- Supplemental Death Benefits Fund operated by TMRS, funded ratio of 10.8% and a net OPEB liability of $1.8 million.

The city's required pension contribution is actuarially determined and calculated at the state level, based on an actuary study. At Dec. 31, 2018, Coppell had 159 retirees and an additional 59 active employees that are eligible to retire. The city implicitly subsidizes medical and hospitalization costs incurred by retirees and their dependents through the use of a single, blended premium rate. Recommendations for plan benefits are presented to city council for their approval during the annual budget process. The city's plan qualifies as a single#?employer, defined-benefit plan administered through a trust. Coppell also provides OPEB in the form of group-term life insurance.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020