S&P Global Ratings

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Summary:

Coppell, Texas; General Obligation

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Credit Profile		
US$21.72 mil comb tax and ltd surplus rev certs of oblig ser 2021 dtd 04/15/2021 due 02/15/2041		
Long Term Rating	AAA/Stable	New
US$8.025 mil GO rfdg bnds ser 2021 dtd 04/15/2021 due 02/01/2031		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the City of Coppell, Texas' $8.0 million series 2021 general obligation (GO) refunding bonds and $21.72 million series 2021 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 GO debt outstanding. The outlook on all ratings is stable.

The bonds 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, which supports our view of Coppell's overall ability and willingness to pay debt service.

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.

Proceeds from the sale of the certificates will be used for projects, primarily streets and roads, throughout Coppell, while proceeds from the bonds will refund outstanding debt for savings. The city will have approximately $152 million in outstanding debt post issuances.

Credit overview

Coppell continues to benefit from its location near the Dallas-Fort Worth metropolitan statistical area (MSA), with annual increases on the tax base and strong wealth and income levels. The city's experienced management team practices conservative budgeting 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; however, the state comptroller changed online sales taxes so that they will be collected in the destination city rather than the city of origin. In anticipation of this change, currently expected to go into effect October 2021, management has already adjusted the budget assuming a 60% reduction in sales tax revenues. In fiscal 2020, sales taxes collected across all funds totaled $44.6 million, of which approximately $21 million was specific to the general fund. We believe Coppell's good financial management practices and current level of reserves will support the city's financial stability over the next two years as Coppell transitions into a smaller operating budget.

Key credit considerations include:

- Very strong economy, with access to a broad and diverse 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 weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 112% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.0x total governmental fund expenditures and 16.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 12.2% of expenditures and net direct debt that is 122.4% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

The rating incorporates our view regarding health -and -safety risks due to COVID-19. Absent short-term implications of COVID-19, we consider social risks in -line with the sector standard. We have analyzed Coppell's environmental and governance risks relative to its economy, management, financial measures, and debt-and-liability profile, and have determined all are on par with our view of the sector standard.

Stable Outlook

Downside scenario

While unlikely, weak and sustained fiscal performance leading to a material reduction in Coppell '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 43,105, is located in Dallas and Denton counties in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 167% of the national level and per capita market value of $194,620. Overall, the city's market value grew by 2.7% over the past year to $8.4 billion in 2021. The weight-averaged unemployment rate of the counties was 3.5% in 2019.

Coppell is about 18 miles northwest of downtown Dallas where it borders DFW International Airport. Residents benefit from direct connections to state highways and interstates, which provide 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 proximity to 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 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 10.6% of the total tax base, are relatively diverse, and include several offices, warehouses, and multifamily residential complexes.

The city is approaching buildout with approximately 300 acres left to develop. Veridesk recently opened a new corporate headquarters in the city and will expand to 800 from 300 employees. In addition, a beauty manufacturing supply corporation is opening a second distribution site to begin construction in 2021. Several hotels, after a delay from the COVID-19 pandemic, are moving forward with construction. One final residential development is expected to add about 74 homes. Coppell's established and stable local economy and strong income and wealth levels are key factors in our 'AAA' rating on the city.

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. Coppell also consults with local economic development organizations to access future trends. The city 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 published in its annual budget, Coppell provides a five-year financial plan that identifies both revenues and expenditures with meaningful assumptions. The city also maintains a formal five-year capital improvement plan (CIP) that identifies project costs and corresponding funding sources. Coppell has a formal investment management policy with holdings reports provided at least quarterly. Its formal debt management policy is closely monitored and incorporated during the budget process and supported by a set of robust internal policies that 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 Coppell's assessed value. The city's 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 8.1% across all governmental funds in fiscal 2020. Coppell's budgetary performance remains solid overall; however, our assessment of adequate incorporates risks to future revenues associated a change in the collections for sales tax revenues. Stable growth in the city's property and sales tax collections, as well as generally flat expenditures, allowed for the operating surplus in fiscal 2020.

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 comptroller ruling. 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. Originally the change in where sales taxes are collected was expected to occur in the current 2021 fiscal year (ending Sept. 30, 2021); however, implementation has been delayed until October 2021(the start of fiscal 2021/2022). Nevertheless, the city continues to operate within budgeted assumptions without adding back expenditures that were cut. This is expected to produce a sizable surplus for fiscal 2021 that will provide additional financial flexibility as the city transitions toward less reliance on sales tax revenues.

Coppell has received some federal stimulus Coronavirus Aid Relief and Economic Security Act funding to date although the amounts are not significant compared to the size of the city's budget. The most recent American Rescue Plan Act is expected to provide a more significant $9 million in funding for the city although officials are awaiting guidance on how the funds will be spent.

For fiscal 2022, Coppell will likely operate with a budget very similar to the 2021 budget assuming the reduction in sales tax revenues and holding expenditures are relatively flat. Should the pressure on revenues be larger than expected, we believe the city's conservative budgeting, willingness to make midyear adjustments, and strong reserves will continue to support at least adequate budgetary performance.

Very strong budgetary flexibility

The city's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 112% of operating expenditures, or $68.7 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 officials will continue with their historically conservative budgeting practices. We believe current reserves are more than sufficient to help mitigate any budgetary pressure that arises from either revenues falling short or expenditures exceeding assumptions. Although not expected, should Coppell use a marginal amount of reserves to close a budgetary gap, we do not believe we will change our view of the city's very strong budgetary flexibility.

Very strong liquidity

In our opinion, Coppell's liquidity is very strong, with total government available cash at 2.0x total governmental fund expenditures and 16.8x governmental debt service in 2020. 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 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 12.2% of total governmental fund expenditures, and net direct debt is 122.4% of total governmental fund revenue.

Revenue-backed debt supported through the city's enterprise fund has been adjusted out for our direct debt-to-revenue calculations. Officials have additional debt plans of about $17.5 million for roads in 2022, which is in line with the city's CIP. Despite routine borrowing, current amortization schedules and anticipated growth should support a stable debt profile. We do not expect a material change to the city's debt profile in the two-year outlook.

Coppell's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.9% of total governmental fund expenditures in 2020. The city made its full required pension contribution in 2020.

Pension and OPEB liabilities

We do not view pension liabilities as an immediate credit risk for the city. Despite a somewhat extended amortization, the pension plan is well-funded. Coppell does not offer OPEB. We do not expect a material increase in pension contributions that could threaten Coppell's fiscal stability in the near term.

Coppell currently participates in the following plans:

- Texas Municipal Retirement System (TMRS), 90% funded ratio and a net pension liability of $17.6 million; and
- OPEB liability of $2.0 million, with an 11% funded ratio.

The city's required pension contribution is actuarially determined and calculated at the state level, based on an actuary study. Coppell 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

Ratings Detail (As Of April 19, 2021)

Ratings Detail (As Of April 19, 2021) (cont.)		
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.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.