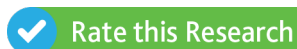


CREDIT OPINION

21 April 2021



Contacts

Kenneth R Surgenor +1.214.979.6848
 Analyst
 kenneth.surgenor@moody's.com

Gregory W. Lipitz +1.212.553.7782
 VP-Sr Credit Officer/Manager
 gregory.lipitz@moody's.com

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Coppell (City of) TX

Update to credit analysis

Summary

The [City of Coppell, TX's](#) (Aaa stable) credit profile benefits from the city's large and growing tax base favorably located in the Dallas/Fort Worth metropolitan area. The city has a history of maintaining strong reserves supported by multiple years of operating surpluses. 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.

Credit strengths

- » Sizable tax base with strong resident income indices
- » History of strong operating performance and very strong reserves
- » Manageable fixed cost burden

Credit challenges

- » 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

- » Trend of operating deficits leading to a material reduction in reserve levels
- » Significant debt issuance absent corresponding increase in tax base

Key indicators

Exhibit 1

Coppell (City of) TX

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$6,175,598	\$6,664,501	\$7,015,047	\$7,597,798	\$8,170,767
Population	40,631	41,138	41,512	41,645	41,290
Full Value Per Capita	\$151,992	\$162,004	\$168,988	\$182,442	\$197,887
Median Family Income (% of US Median)	194.7%	193.1%	196.3%	183.6%	183.6%
Finances					
Operating Revenue (\$000)	\$64,701	\$69,379	\$72,637	\$79,942	\$79,534
Fund Balance (\$000)	\$41,201	\$47,962	\$54,766	\$66,677	\$78,701
Cash Balance (\$000)	\$62,671	\$60,989	\$67,090	\$78,141	\$92,953
Fund Balance as a % of Revenues	63.7%	69.1%	75.4%	83.4%	99.0%
Cash Balance as a % of Revenues	96.9%	87.9%	92.4%	97.7%	116.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$70,360	\$63,645	\$89,180	\$82,020	\$90,095
3-Year Average of Moody's ANPL (\$000)	\$72,451	\$85,282	\$90,070	\$97,687	\$112,465
Net Direct Debt / Full Value (%)	1.1%	1.0%	1.3%	1.1%	1.1%
Net Direct Debt / Operating Revenues (x)	1.1x	0.9x	1.2x	1.0x	1.1x
Moody's - ANPL (3-yr average) to Full Value (%)	1.2%	1.3%	1.3%	1.3%	1.4%
Moody's - ANPL (3-yr average) to Revenues (x)	1.1x	1.2x	1.2x	1.2x	1.4x

Sources: US Census Bureau, Coppell (City of) TX's financial statements and 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 41,410 residents.

Detailed credit considerations

Economy and tax base: large tax base favorably located in DFW metropolitan area

Coppell's tax base will likely to grow because of commercial and residential development and a favorable location near Dallas-Fort Worth International Airport. Over the past five years, the city's taxable values have increased 6.3% on average, including a 2.7% increase to \$8.4 billion for fiscal 2021.

The city's location near the airport has driven a high level of commercial and industrial developments, but the city also has residential growth. Resident wealth levels are very strong with a median family income that represents 183.6% of the US. The city's unemployment rate has recovered significantly since the peak of 10.4% in May 2020. As of January 2021, the unemployment rate of 5.6% compared favorably to both state (7.3%) and national (6.8%) levels for the same period.

Financial operations and reserves: adaptive financial management team to maintain trend of strong operating reserves

The city's financial operations will likely remain strong, despite the material impact of a recent change in state sales tax law. The new rule goes into effect in October 2021 (fiscal 2022), and alters internet sales tax sourcing to point-of-destination rather than point-of-fulfillment. This change is particularly meaningful to cities such as Coppell that have a large presence of customer fulfillment centers that generate sales tax from e-commerce transactions.

Fiscal 2020 operations (general and debt service funds; fiscal year end September 30) closed with an \$11.3 million surplus, the city's sixth consecutive, pushing available operating reserves to \$78.7 million, representing a very strong 99% of revenue, which is roughly two times the median for Aaa rated cities. The surplus is attributable to expenditure reductions management implemented well in

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advance of the revenue impact from the rule change. Sales tax collections, which account for roughly 28% of general fund revenue, declined roughly 4% in fiscal 2020 due to closure orders resulting from the pandemic.

Though projected to be less than fiscal 2020, management projects the city will close with another sizable surplus in fiscal 2021. Management anticipates sales tax revenue could decline roughly 60% in fiscal 2022 as a result of the sales tax rule change. However, property taxes remain the city's largest revenue stream and are expected to remain stable given ongoing economic expansion.

Liquidity

The city closed fiscal 2020 with \$93 million in operating liquidity, representing 116.9% of operating revenue.

Debt and pensions: slightly elevated debt burden relative to Aaa peers; fixed costs manageable

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 2021 issuance, the city's debt burden equates to 1.2% of the fiscal 2021 full value, exclusive of self-supporting water and sewer debt. 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.

Legal security

The city's bonds and certificates, including Series 2021, are direct obligations of the city secured by a direct and continuing annual ad valorem tax, levied on all taxable property within the limits prescribed by law, with the certificates further secured by a limited pledge not to exceed \$1,000 of surplus net revenues of the city's water and sewer system.

Debt structure

All of the city's debt is fixed rate and matures over the long term (final maturity in fiscal 2041). Amortization is average with 58% of debt repaid over ten years.

Debt-related derivatives

The city is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

Coppell has a manageable employee pension burden, based on unfunded liabilities for its share of the Texas Municipal Retirement System (TMRS), a multi-employer agent plan administered by the state. The city reported unfunded pension liabilities of \$17.6 million as of December 31, 2019. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is \$138.1 million, or a manageable 1.7 times operating revenue. Fixed costs consumed roughly 17% of operating revenue, which is modest.

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. The City Charter requires maintenance of reserves equal to 10% of expenditures, though council has set a policy to maintain an additional 15%, 25% in total.

Texas Cities have an institutional framework score ¹ of "Aa," which is strong. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Revenues are largely derived from property taxes which tend to be highly stable and predictable, sales taxes which are moderately stable and predictable and other fees. As a result unpredictable revenue fluctuations

tend to be minor, or under 5% annually. Cities have a moderate ability to raise revenues because most cities are at the sales tax cap set by state statute. Additionally, property taxes are subject to a statutory cap of \$25 per \$1,000 of assessed values, with no more than \$15 allocated for debt. Although most cities are well under the cap, cities can only increase their property tax revenues by 3.5% on existing property without voter approval on an annual basis; all increases above 3.5% must be approved by voters. Operating expenditures for cities tend to be highly stable and predictable with minor fluctuations under 5% annually. Cities also have a strong ability to reduce expenditures.

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

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$8,389,096	Aa
Full Value Per Capita	\$202,586	Aaa
Median Family Income (% of US Median)	183.6%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	99.0%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	84.8%	Aaa
Cash Balance as a % of Revenues	116.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	38.7%	Aaa
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 (%)	1.2%	Aa
Net Direct Debt / Operating Revenues (x)	1.3x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.3%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.4x	A
Notching Factors:[2]		
Unusually Strong or Weak Security Features		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.

Sources: US Census Bureau, {OrgName}'s financial statements and Moody's Investors Service

Endnotes

- 1 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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