FitchRatings

Public Finance
Tax-Supported
U.S.A.

Coppell Independent School District, Texas

New Issue Summary

Sale Date: The bonds are scheduled to be sold in mid-to-late March 2021, via negotiation.

Series: $43,934,839 Unlimited Tax Refunding Bonds (Taxable), Series 2021.

Purpose: The bond proceeds will be used to refund a portion of the Coppell Independent School District's (Coppell ISD, or the district) outstanding series 2014 unlimited tax (ULT) bonds for interest cost savings.

Security: An annual unlimited property tax levy secures the series 2021 bonds, along with a guaranty provided by the Texas Permanent School Fund.

The 'AA+' Long-Term Issuer Default Rating (IDR) reflects the district's superior gap-closing capacity through economic cycles due to a combination of solid budgetary controls and established reserves. Fitch Ratings expects long-term revenue gains to remain strong given robust local economic expansion and demographic trends. Long-term liabilities and fixed costs may increase due to future debt issuance but are expected to remain within Fitch's moderate range.

Economic Resource Base: Serving a population of roughly 50,000, Coppell ISD encompasses the city of Coppell and small portions of Dallas and Irving. The district's location within the Dallas-Fort Worth (DFW) MSA provides its residents with easy access to a large and diverse labor market. Wealth and income indicators for the ISD are well in excess of county, state and national levels.

Key Rating Drivers

Revenue Framework: 'a': Fitch expects the district to realize strong revenue growth in the years ahead, consistent with patterns over the past 10 years, fueled by favorable development trends. The district's independent legal ability to raise revenues is limited by state law.

Expenditure Framework: 'aa': The natural pace of spending is expected to align with revenue growth. Solid expenditure flexibility incorporates management's control over headcount and salaries within the annual budget cycle and moderate carrying costs.

Long-Term Liability Burden: 'aa': Fitch expects the district's long-term liability burden to remain moderate based on future debt issuance plans and potential moderate growth in overlapping debt.

Operating Performance: 'aaa': The combination of the district's strong budget management practices and healthy reserves leaves it well positioned to address both the current economic uncertainty and future economic cycles.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A sustained decline in the long-term liability burden to below 10% of residents' personal income.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Failure to implement available policy measures that would offset risks associated with a return to economic contraction consistent with Fitch's coronavirus downside scenario,

Ratings

Long-Term Issuer Default Rating	AA+

New Issue[a]

$43,934,839 Unlimited Tax Refunding Bonds (Taxable), Series 2021	AAA

[a]The 'AAA' rating on the series 2021 bonds reflects a guaranty provided by the Texas Permanent School Fund, which carries a Fitch Insurer Financial Strength Rating of 'AAA'. The bonds' underlying Long-Term Issuer Default Rating, reflecting their credit quality before consideration of the guaranty, is 'AA+'

Outstanding Debt

Unlimited Tax Refunding Bonds	AA+
Unlimited Tax School Building and Refunding Bonds	AA+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (March 2020)

Related Research

Fitch Rates Coppell ISD, TX's ULTs 'AAA', TX PSF's Underlying Rating 'AA+'; Outlook Stable (March 2021)

Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Governments (December 2020)

Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases — Update (December 2020)

Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers (October 2020)

Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases -- Update (September 2020)

Coppell Independent School District (TX) – ESG Navigator (May 2019)

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such as a material decline in K–12 education funding, resulting in an erosion of the district's gap-closing capacity.

- More severe economic weakness than envisioned in Fitch's coronavirus downside scenario, without evidence that available measures are adequate to counter associated budgetary risks.

Current Developments

The ongoing coronavirus pandemic and related government-led containment measures have created an uncertain environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature; as such, Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 3Q21. In its baseline scenario, Fitch anticipates a slower recovery in early 2021, with vaccine rollout to vulnerable, key workers and older individuals in 1H21 but limited for most of the population until late 2021. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the reports, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases — Update," published Dec. 7, 2020; and "Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Governments," published Dec. 16, 2020. These reports are available at www.fitchratings.com.

The pandemic has had a material impact on state revenues. While state officials have directed certain state agencies to reduce spending by 5% for the remainder of the 2020–2021 biennium, no reduction in K–12 funding was included in that directive. However, changes in K–12 funding for 2021–2023 are under consideration in the current state legislative session, which began on Jan. 12, 2021 and is expected to conclude on May 31, 2021.

From mid-March 2020 through the last day of the spring 2020 semester, the district was designated as "closed, instructing" with the Texas Education Agency (TEA), indicating that normal operations had ceased and children were no longer coming to campuses but instead were receiving support for instruction at home/offsite. This designation allowed the district to continue receiving state aid based on average daily attendance (ADA). TEA reportedly used ADA from the first four six-week grading periods of the 2019–2020 academic year to estimate ADA during the last two six-week grading periods, accounting for the historical difference in the attendance rate.

For the 2020–2021 academic year (or fiscal 2021), the district has adopted a hybrid approach to educating students. Parents/guardians have the option to elect either remote or on-campus instruction, with a phased-in, return-to-campus approach for the latter option. To address enrollment declines in other districts this school year due to the pandemic, TEA instituted an ADA hold-harmless measure, which is available to most school districts for the 2020-2021 academic year. This measure generally allows a district's projected ADA to be calculated using a three-year average trend of final ADA from the 2017 through 2020 academic years.

Credit Profile

The City of Coppell serves as a retail base for nearby Lake Grapevine and continues to expand its commercial/industrial presence. Benefiting from its proximity to the DFW International Airport, I-35 and other major highways, the district continues to attract distributors, big-box warehousing and corporate headquarters operations. Fiscal 2021 taxable assessed value (TAV) is approximately $14 billion, reflecting a 9.5% increase yoy. The tax base is diverse, with the top 10 taxpayers accounting for about 5% of fiscal 2021 TAV.

A 1,700-acre, high-end mixed-use development known as Cypress Waters is projected to be the main source of long-term enrollment growth, as the remainder of the district is approaching buildout. Corporate headquarters within Cypress Waters include those of 7-Eleven and Nokia (serving as the entity's North American headquarters). According to management, the master-planned development is not planned to reach full buildout until at least 2030.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	3/12/21
AA+	Revised	Stable	4/30/10
AA	Upgraded	Stable	8/10/07
AA–	Affirmed	Positive	6/21/06
AA–	Upgraded	—	5/23/00
A+	Assigned	—	1/12/95

The district's ADA, a principal determinant of state funding, reflected a 1.3% CAGR for the five-year period ended in 2020. Management expects steady enrollment growth to continue as the population expands.

Revenue Framework

Funding for public schools in Texas is provided by a combination of local (property tax), state and federal resources. The state budgets the majority of instructional activity through the Foundation School Program (FSP), which uses a statutory formula to allocate school aid by taking into account each district's property taxes, projected enrollment and amounts appropriated by the Texas Legislature in the biennial budget process. The Tier 1 component of the FSP provides districts a certain level of operational funding, and the basis for most Tier 1 allotments is called the basic allotment. The basic allotment is a per-pupil dollar amount that, when multiplied by ADA (and adjusted for specific circumstances), produces a district's Tier 1 allotment.

Property taxes accounted for 90% of the district's fiscal 2020 general fund revenues, followed by state funding at 7.5%.

The CAGR of district revenues for the 10-year period ended in fiscal 2020 was a strong 9.5%, well in excess of U.S. GDP and inflation over the same period. Over the near-to-medium term, Fitch expects that solid enrollment and tax base gains will continue to drive strong revenue growth.

Pre-pandemic, the state increased TEA funding for the state's fiscal 2020–2021 biennium by $11.6 billion (roughly 20%) to $67 billion. House Bill 3 (HB 3) — the funding legislation — includes a number of reforms to K–12 education. These changes include an early childhood allotment that may be used for full-day prekindergarten for eligible children, increased funding for low-income student education, incentives for districts to offer dual language programs and money for districts to develop merit pay programs for teachers. As noted above, the state made no changes to K–12 funding notwithstanding the circumstances brought on by the onset of the pandemic.

The increased state funding resulted in an increase in the per-student basic allotment to $6,160 from $5,140. HB 3 requires districts to apply 30% of annual increased funding to fulltime employee compensation increases, 75% of which would go to teachers, counselors, nurses and librarians. Finally, the legislation revises the equalization formula so that recapture payments by property-wealthy districts (which go to the state for redistribution purposes) are projected to decline by $1.6 billion and $1.9 billion in fiscal years 2020 and 2021, respectively. Coppell ISD is subject to recapture payments. In fiscal 2020, the ISD's recapture (or wealth transfer) payments totaled about $33 million, down from $45 million in fiscal 2019.

HB 3 also requires a compression of the vast majority of districts' local operating tax rates to $0.93 from $1, which was implemented in fiscal 2020. If they have not done so previously, districts will also have the ability to increase the operating rate by $0.04 without voter approval, and they can add an additional $0.01 with unanimous board approval. Furthermore, HB 3 requires districts to limit annual operating tax revenue increases to 2.5% — by requiring a further compression in the O&M rate if TAV increases by more than 2.5% — beginning in fiscal 2021. Additional enrichment pennies (up to an additional $0.12) can be added to the operating tax rate in fiscal 2021 if previously approved by voters; any further enrichment pennies not previously authorized will require voter approval before being levied.

The district does not have the ability to independently raise revenues. Although the property tax pledge securing the ISD's bonds is unlimited, state law requires districts to demonstrate the ability to service outstanding and any proposed debt with a debt service rate of no more than $0.50 per $100 of TAV. The ISD's current overall property tax rate, at $1.31 per $100 of TAV, includes a $1.0514 O&M rate and a $0.2586 debt service rate that is not subject to compression under HB 3.

Expenditure Framework

Instructional costs account for the largest expenditure category, equal to 51% of spending in fiscal 2020. Additionally, as a property-rich district under Chapter 41 of the Texas Education Code, a portion of Coppell ISD's O&M levy is recaptured by the state for distribution to less wealthy school districts (*as mentioned above*).

Fitch expects the district's spending to grow either in line with or marginally above revenues, as both revenues and recapture payments are driven by growth in TAV.

The district maintains solid control over spending despite the recapture payment requirements, including labor and related costs, through its annual budget process. The district's moderate carrying costs, at approximately 20% of spending in fiscal 2020, partly reflect the state's payment of statewide school district pension contributions. The amortization schedule for the ISD's recent issuance indicates that carrying costs will likely remain in the moderate category.

The district participates in the Texas Teacher's Retirement System (TRS), a cost-sharing, multiple employer system. Actual contributions are fixed in statute, while the actuarially determined contribution (ADC) measures contributions needed to eliminate the unfunded liability in 30 years. Statutory rates have often been below the ADC, with the resulting funding period slipping beyond the 31-year statutory maximum. Contributions and the net pension liability (NPL) are shared by school districts and the state.

In 2018, TRS lowered its discount rate to 7.25%, down from 8%, and in 2019 the Legislature raised state, employer and employee rates over five years to bring the funding period within the legal maximum threshold. Like all Texas school districts, the ISD is vulnerable to future state policy changes that could potentially shift more of the contributions and liabilities onto districts, as well as to TRS's ability to achieve its funding assumptions over time.

Long-Term Liability Burden

The district's long-term liability burden, comprising overall debt and direct unfunded pension liabilities (adjusted for Fitch's standard 6% rate of return assumption), is moderate at about 13% of personal income. The liability burden is comprised primarily of direct debt (60% of the liability burden), followed by overlapping debt (40%). Fitch expects the district's liability burden to remain moderate considering its plans to seek additional voter authorization over the next 12 to 24 months, along with commensurate growth in its wealthy resource base. Future bond-funded projects will focus primarily on renovations and technology, as instructional capacity is projected to suffice for the next seven to nine years given the recent bond-funded projects.

The district provides pension benefits exclusively through its participation in TRS. Under GASB 67, TRS's assets covered 75.2% of liabilities as of the system's fiscal 2020 audit, a ratio that falls to 64.3% using Fitch's standard 6% return assumption. Reported system figures are based on the lower discount rate implemented by TRS in 2018 and the statutory increase in contribution rates approved in 2019. Higher expected contributions have eliminated the depletion date reported by TRS in fiscal 2018, and which school districts reported in their fiscal 2019 audits, bringing forecast amortization to 30 years.

Although statutory contributions increase the likelihood of funding improvement, future progress ultimately depends on whether actual TRS performance matches actuarial assumptions over time. At present, the state carries just over half of TRS's employer NPL on behalf of school districts and pays roughly half of contributions.

Operating Performance

Given Coppell ISD's robust fund balance position, Fitch believes the district has the capacity to reasonably absorb potential financial pressure resulting from the pandemic and subsequent economic uncertainty without impairing its strong financial resilience.

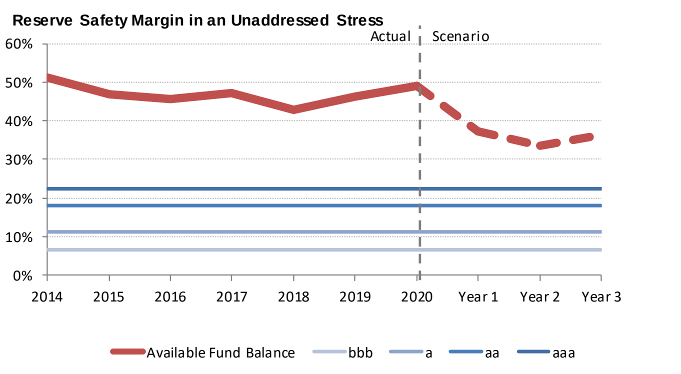
The ISD has historically budgeted conservatively and implemented cost savings initiatives when needed. For fiscal 2021, the adopted district budget includes a $7.2 million general fund deficit. This stems from the district overestimating its operating expenditures due to many uncertainties involving the pandemic, according to management. Despite these expectations, management has confirmed that the budget is now trending much better than anticipated. Even if the $7.2 million drawdown were to be fully realized, the district would still maintain a solid operating reserve. Fitch expects that the district will continue to prudently manage its costs to maintain operating performance in a manner consistent with the current rating.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Coppell Independent School District (TX)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The district has ended the past several fiscal years with an unrestricted general fund balance that accounts for no less than 40% of operating expenditures. At the close of fiscal 2020, the district posted about a $4 million surplus, net of transfers; the available fund balance at year-end totaled $74 million, or a strong 49% of general fund expenditures.

Scenario Parameters:		Year 1	Year 2	Year 3
GDP Assumption (% Change)		(3.5%)	4.5%	3.5%
Expenditure Assumption (% Change)		0.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-5%** *Case Used:* **Baseline**	(14.0%)	12.0%	9.0%
Inherent Budget Flexibility			Midrange	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2014	2015	2016	2017	2018	2019	2020	Year 1	Year 2	Year 3
Total Revenues	100,782	110,919	118,036	134,187	141,975	159,607	154,273	132,693	148,606	161,971
% Change in Revenues	-	10.1%	6.4%	13.7%	5.8%	12.4%	(3.3%)	(14.0%)	12.0%	9.0%
Total Expenditures	97,250	107,064	116,235	124,160	141,388	150,965	150,609	150,609	153,621	156,694
% Change in Expenditures	-	10.1%	8.6%	6.8%	13.9%	6.8%	(0.2%)	0.0%	2.0%	2.0%
Transfers In and Other Sources	50	29	68	37	72	572	273	235	263	286
Transfers Out and Other Uses	-	2,482	-	3,000	-	-	-	-	-	-
Net Transfers	50	(2,453)	68	(2,963)	72	572	273	235	263	286
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	3,582	1,402	1,870	7,064	660	9,213	3,936	(17,681)	(4,753)	5,564
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	3.7%	1.3%	1.6%	5.6%	0.5%	6.1%	2.6%	(11.7%)	(3.1%)	3.6%
Unrestricted/Unreserved Fund Balance (General Fund)	49,796	51,194	53,067	60,104	60,777	70,004	73,941	56,259	51,506	57,070
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	49,796	51,194	53,067	60,104	60,777	70,004	73,941	56,259	51,506	57,070
Combined Available Fund Bal. (% of Expend. and Transfers Out)	51.2%	46.7%	45.7%	47.3%	43.0%	46.4%	49.1%	37.4%	33.5%	36.4%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	71.9%	36.0%	22.5%	13.5%	9.0%
Reserve Safety Margin (aa)	53.9%	27.0%	18.0%	11.2%	6.7%
Reserve Safety Margin (a)	36.0%	18.0%	11.2%	6.7%	4.5%
Reserve Safety Margin (bbb)	13.5%	9.0%	6.7%	4.5%	2.2%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.