FITCH RATES COPPELL ISD, TX ULTS 'AAA' TX PSF; 'AA+' UNDERLYING; OUTLOOK STABLE

Fitch Ratings-Austin-01 February 2018: Fitch Ratings has assigned a 'AAA' rating based on the Texas Permanent School Fund (PSF) and a 'AA+' underlying rating to the following Coppell Independent School District, TX's (the district) unlimited tax bonds (ULTs):

--$88.8 million ULT school building and refunding bonds series 2018.

In addition, Fitch has affirmed the following ratings:
--The district's Issuer Default Rating (IDR) at 'AA+';
--$245 million (pre-refunding) in outstanding ULTs at 'AA+'.

The Rating Outlook is Stable.

The bonds are scheduled for a negotiated sale the week of Feb. 12. Bond proceeds will be used for construction, acquisition, and equipment of school buildings in the district and to refund outstanding obligations for debt service savings.

SECURITY

The bonds are payable from an unlimited property tax levy and are further backed by the PSF bond guaranty program, rated 'AAA' by Fitch. (For more information on the Texas Permanent School Fund see 'Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable', dated July 21, 2017).

ANALYTICAL CONCLUSION

The 'AA+' rating is based on the district's strong operating performance, solid expenditure flexibility and moderate long-term liabilities.

Economic Resource Base
The district serves the city of Coppell (located 18 miles northwest of downtown Dallas) and small portions of the cities of Dallas and Irving in northwest Dallas County. The district's 2016 population is estimated at about 48,400 and per capita market value is a high $255,000. The district's current enrollment (12,391) reflects 10-year compound average annual growth of 2.3%, outpaced by robust growth in taxable assessed valuation (TAV) averaging 5% during the same period. Fitch anticipates ongoing growth in the district's enrollment associated with residential development planned and underway. The district's location in the Dallas-Fort Worth (DFW) metropolitan area provides its residents with easy access to a large and diverse labor market.

KEY RATING DRIVERS

Revenue Framework: 'a'
Fitch anticipates the district to realize strong revenue growth going forward, consistent with trends of the past 10 years, fueled by favorable development trends. The district's independent 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'
Currently about 13% of personal income, Fitch expects the district's long-term liability burden to remain moderate based on debt issuance plans, a below- average amortization rate and the potential for moderate growth in overlapping debt.

Operating Performance: 'aaa'
Fitch expects the district's finances to remain strong through an economic downturn based on sizable reserves and sound expenditure flexibility. Disciplined budget management practices support the district's history of consistently favorable operating performance.

RATING SENSITIVITIES

Financial Flexibility: The IDR and GO rating are sensitive to the district's maintenance of strong financial flexibility and expectations for strong revenue growth.

CREDIT PROFILE

The city serves as a retail base to nearby Lake Grapevine and continues to expand its commercial/industrial presence. Benefitting from proximity to the DFW airport, I-35 and other major highways, the district continues to attract distributors, big-box warehousing, and corporate headquarter operations. The tax base is diverse with top ten taxpayers accounting for 6% of fiscal 2018 TAV.

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 taking into account each district's property taxes, projected enrollment, and amounts appropriated by the 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 multiplied by average daily attendance (and adjusted for specific circumstances) produces a district's Tier 1 allotment. The district is considered property wealthy and relies almost entirely on local property taxes to support operations.

General fund revenues grew by a compound annual average of 2% for the 10-year period ending fiscal 2017. Policy actions in the form of statewide maintenance and operations (M&O) tax rate reductions in fiscal years 2007 and 2008 and state aid reductions account in part for the district's modest revenue trends. Fitch expects Coppell ISD's revenue growth to exceed the pace of U.S. GDP based on development plans underway and consistent with the district's recent enrollment and TAV growth.

Coppell ISD's M&O tax rate of $1.17 per $100 of TAV is at the statutory cap, resulting in no ability to raise revenues through its tax rate. The district levies a separate, unlimited debt service tax rate of $0.38 per $100 TAV, below the statutory cap of $0.50 per $100 TAV for new debt issuance.

Expenditure Framework
Instructional costs account for the largest expenditure category, equal to 51% of spending. Additionally, as a property rich district under Chapter 41 of the Texas Education Code, a portion of Coppell ISD's operation and maintenance (O&M) levy is recaptured by the state for distribution to less wealthy school districts. These payments totaled $30.4 million in fiscal 2017, representing 24.5% of spending.

Fitch expects the district's spending to grow in line with revenues, as both revenues and Chapter 41 payments are driven by growth in TAV.

The district maintains solid control over spending despite Chapter 41 requirements, including labor and related costs, through its annual budget process. The district's moderate carrying costs, 16% of spending, reflect the state's payment of state-wide school district pension contributions. Fitch expects the district's carrying costs to remain moderate considering planned issuances over the next several years.

Long-Term Liability Burden
Fitch expects the district's long-term liability burden, under 13% of personal income, to remain moderate following the planned completion of its $249 million 2016 bond program; the district expects to issue the remaining $84 million of bond authorization in spring 2019. Direct debt comprises the majority of the liability burden (57% of total liability), followed by overlapping debt (34%).The majority of the 2016 bond program ($146 million) will fund student growth, including a new middle school and elementary school. Additional projects include technology ($35 million), renovations ($33 million), district-wide improvements ($32 million) and safety and security ($3 million). The district's debt amortizes slowly with 39% retired in 10 years.

The district participates in the Texas Teachers Retirement System (TRS), a cost-sharing multiple-employer pension system. Under GASB 67 and 68, TRS's assets covered 82.2% of liabilities as of fiscal 2017, a ratio that falls to a Fitch-estimated 64% using a more conservative 6% return assumption. The state assumes the majority of TRS employer contributions and net pension liability on behalf of school districts, except for small amounts that state statute requires districts to assume. Like all Texas school districts, Coppell ISD is vulnerable to future policy changes that shift more of the contributions and liabilities onto districts, as evidenced by a relatively modest 1.5% of salary contribution requirement that became effective fiscal 2015.

The proportionate share of the system's net pension liability paid by the district is minimal, representing 1% of personal income. Coppell ISD's contributions are currently limited to the 1.5% of salaries and the pension costs for salaries above the statutory maximum (total contribution of $2.2 million in fiscal 2017).

Operating Performance
Fitch expects the district to retain a high level of financial flexibility during an economic downturn given its sound expenditure flexibility and healthy reserves. Financial performance and reserve levels are very strong despite the large recapture payments associated with the state funding formula. The district posted a $7.1 million (5.6% of spending) net surplus in fiscal 2017, completing the year with $60.1 million of unrestricted reserves (47.3% of spending). Fitch anticipates the district's reserves to remain well above its minimum two-month policy floor.

Conservative budgeting and diligent cost management have contributed to a history of favorable operating performance. The district's reserves remain stable during economic cycles and management does not defer spending needs. The fiscal 2018 budget was adopted with a modest $1.8 million operating deficit although management projects balanced operations based on year-to-date performance.

Contact:

Primary Analyst
Jose Acosta
Senior Director
+1-512-215-3726
Fitch Ratings, Inc.

111 Congress Avenue
Austin, TX 78701

Secondary Analyst
Nancy Rocha
Director
+1-512-215-3741

Committee Chairperson
Amy Laskey
Managing Director
+1-212-908-0568

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
https://www.fitchratings.com/site/re/898466