

# RatingsDirect®

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**Summary:**

## Coppell Independent School District, Texas; General Obligation; School State Program

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### Credit Profile

US\$88.825 mil unlted tax sch bldg and rfdg bnds ser 2018 dtd 02/15/2018 due 08/15/2048

<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	AA+/Stable	New
Coppell Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA+/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' program rating and 'AA+' underlying rating to Coppell Independent School District (ISD), Texas' series 2018 general obligation (GO) unlimited-tax school building and refunding bonds. At the same time, we affirmed our 'AA+' underlying rating on the district's existing unlimited-tax GO debt. The outlook on all ratings is stable.

The 'AAA' enhanced program rating reflects our view of the ISD's eligibility for, and participation in, the Texas Permanent School Fund bond guarantee program, which provides the security of a permanent fund of assets the district can use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, see the report published Jan 25, 2017, on RatingsDirect.)

An unlimited ad valorem property tax pledge secures the bonds.

Bond proceeds will be used to refund a portion of district's debt for interest savings and to finance various districtwide construction, improvements, and expansions of school facilities, including the acquisition of school buses and sites for school facilities.

The underlying rating reflects our opinion of the district's general creditworthiness including its:

- Access to and direct participation in the broad and diverse Dallas-Fort Worth-Arlington metropolitan statistical area (MSA);
- Extremely strong wealth and very strong income levels; and
- Very strong financial position, characterized by sustained strong budgetary performance and high reserves despite recapture payments made to the state and declines in state aid.

The preceding credit strengths are offset by the district's requirement to make recapture payments to the state based on its property-wealthy status under the state school financial system and by the district's high overall debt per capita.

## **Economy**

Coppell Independent School District serves an estimated population of 56,133. The median household effective buying income in the district is 201% of the national average, and the per capita effective buying income in the district is 185% of the national average, both of which we consider very strong. At \$197,381 per capita, the 2018 market value totaling \$11.1 billion is, in our opinion, extremely strong. Net taxable assessed value (AV) grew by a total of 21.1% since 2016 to \$11.1 billion in 2018. Roughly 5.9% of net taxable AV comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

Coppell ISD is located in northwest Dallas County, approximately 18 miles northwest of downtown Dallas and 24 miles northeast of Fort Worth, and encompasses approximately 25 square miles in Coppell. The local economy is broad and diverse, and residents have direct access to and participate in the Dallas-Fort Worth-Arlington MSA. Commensurate with growth in the Dallas metroplex, the district's AV growth has largely been driven by new developments and by appreciation in the commercial and residential sectors fueled by robust economic activity in the region. In 2017, approximately 70 new commercial businesses were added to the tax base, and officials expect strong commercial and residential development to continue for the next two years. Therefore, officials conservatively estimate 4% AV growth for the next two years.

## **Finances**

The district operates 16 educational facilities: 10 elementary schools, three middle schools, two high schools, and an alternative school. As a result of residential development, the district's enrollment consistently increased at an average rate of 3% in the last five years. Currently, the district's enrollment totals 12,408 students, and officials project continued growth for the next five years. The district, however, expects slower growth than initially projected as younger families are getting priced out of available homes in the district. A demographer expects enrollment growth of 340 students in fiscal 2019 and 227 students in fiscal 2020. Additionally, the district accepts elementary transfer students who are living in the city of Coppell but outside of Coppell ISD's boundaries. Currently, transfer students account for approximately 1% of total enrollment.

To accommodate enrollment growth and facilities needs, the district approached the voters for \$249 million in the 2016 bond election. The voters approved the authorization, and the district will use the proceeds toward construction a new middle school, conversion of a ninth-grade center, security and technology upgrades, and various renovations to existing facilities.

A wealth equalization formula, based on property values and average daily attendance (property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in average daily attendance (enrollment) can lead to increases or decreases, respectively, in the amount of state revenue a district receives.

Because the district's wealth per weighted average daily attendance exceeds the statutory threshold under the state school finance mechanism, the district is classified as property wealthy (Chapter 41). As such, the district is required to remit local revenues to the state for the purpose of equalizing education funding as prescribed by state statute. The district's recapture amounts for fiscals 2016 and 2017 were \$24.0 million and \$30.4 million, respectively. Preliminary estimates from the Texas Education Agency estimate the fiscal 2018's recapture at \$37 million. The district's recapture payment for fiscal 2018 represented approximately 27% of the district's general fund expenditures.

The district's available fund balance of \$55.2 million is very strong in our view, at 44% of general fund expenditures at fiscal year-end (Aug. 31) 2017. The district reported a surplus operating result of 5.7% of expenditures in 2017. The district depends primarily on property taxes for general fund revenue (89.4%), with state aid accounting for only 8.4% of revenue.

The district has historically budgeted conservatively by underestimating revenues and overestimating expenditures, which has helped sustain strong budgetary performance. For fiscal 2017, the district reported a \$7 million surplus, or 5.7% of operating expenditures, after transferring \$3 million to the debt service fund. Due to stronger-than-expected results, the board approved a \$3 million transfer to debt service to provide tax relief on the debt service levy. The district decreased the debt service levy to 30.77 cents in fiscal 2018 from 32.27 cents in fiscal 2017, and plans to draw down approximately \$500,000 from debt service reserves for the next four years. As of fiscal 2017, the district's debt service increased to \$8.4 million from \$4.0 million in fiscal 2016.

For fiscal 2018, the district budgeted conservatively and adopted a deficit budget of \$1.5 million, or 1% of operating expenditures. However, fiscal 2018 results are trending favorably, and officials anticipate ending the year with at least break-even results. Although the district plans to draw down approximately \$1 million in fiscal 2019 to support the new freshman center, we anticipate the district will sustain its very strong financial position for the next two years.

The district's current total tax rate is \$1.477 per \$100 of AV, which reflects \$1.17 for operations and 30.77 cents for debt service. Following a tax ratification election in 2010, the district's electorate raised the maintenance and operations (M&O) rate by 13 cents to the statutory cap of \$1.17. Officials intend to maintain current the M&O rate and adjust debt service based on AV growth.

## **Management**

We consider the district's management practices good under our Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include the district's five-year historical trend analysis when projecting revenues and expenditures; consultation with demographers to project enrollment; monthly updates on budget-to-actual results to the board; a five-year long-term finance plan that is shared with the board; and a five-year capital improvement plan, which is updated multiple times throughout the year. In addition, the district has a formal investment policy and provides quarterly investment reports to the board. The district also maintains a formal debt management policy, which identifies permissible types of debt and general parameters. The formal reserve policy calls for two months of expenditures, which the district has consistently exceeded.

## **Debt**

Overall net debt is moderate, in our opinion, as a percentage of market value at 4.8%, but high on a per capita basis at \$9,492. With 39% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 18.8% of total governmental fund expenditures excluding capital outlay in fiscal 2017, which we consider elevated.

Following this issuance, the district plans to issue additional an \$83.9 million in debt in May 2019. However, we expect

the district's debt burden to remain moderate due to AV growth. Despite the additional debt issuance, the district expects to maintain the debt service below 31 cents, well below the voter-approved rate of 34.8 cents. The district does not have alternative financing at this time.

### Pension and other postemployment benefit (OPEB) liabilities

The district provides pension benefits for all full-time employees through the statewide Texas Teachers' Retirement System (TRS), a cost-sharing, multiemployer, defined-benefit, public-employee retirement system. Under state law governing TRS, the Texas Legislature determines the benefits and contribution rates annually. The district contributes to TRS at the contractually determined rate. As of Aug. 31, 2016, the most recent valuation, the district's proportionate share of TRS' net pension liability was approximately \$24.1 million. At the same time, the TRS plan's fiduciary net position, as a percentage of the total pension liability, was 78%, which we consider adequately funded. In keeping with historical practice, the district paid 100% of its contractually required contribution of \$2.2 million toward its pension obligations in fiscal 2017, or 1.0% of total governmental expenditures. For these reasons, we do not expect long-term liabilities to place significant budgetary pressure on finances.

Additionally, the district provides OPEBs in the form of health care insurance through the state-administered Texas Public School Retired Employees' Group Insurance program (TRS-Care). OPEBs are paid on a pay-as-you-go basis.

## Outlook

The stable outlook on the program rating reflects our assessment of the Texas Permanent School Fund guarantee's strength.

The stable outlook on the underlying rating reflects our expectation that, within our two-year outlook horizon, the district will sustain its very strong financial position. Additionally, we anticipate the district will continue to benefit from its access to and direct participation in the Dallas-Arlington-Fort Worth MSA.

### Downside scenario

Although unlikely, should reserves deteriorate substantially below current levels, or future debt issues materially alter the district's financial health, we could lower the rating.

### Upside scenario

While we do not anticipate it, moderation of the district's high overall net debt could lead to upward rating potential.

Ratings Detail (As Of February 1, 2018)		
Coppell Indpt Sch Dist GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Coppell Indpt Sch Dist PSF/CRS		
<i>Long Term Rating</i>	AAA/Stable	Current
<i>Underlying Rating for Credit Program</i>	AA+/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

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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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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