

RatingsDirect®

Summary:

Frisco, Texas; General Obligation

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

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Credit Profile

US\$26.98 mil GO bnds ser 2020 dtd 09/01/2020 due 02/15/2040		
<i>Long Term Rating</i>	AAA/Stable	New
US\$13.58 mil comb tax & surplus rev certs of oblig ser 2020 dtd 09/01/2020 due 02/15/2040		
<i>Long Term Rating</i>	AAA/Stable	New
Frisco GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the City of Frisco, Texas' \$26.9 million general obligation bonds series 2020, and \$13.9 combination tax and surplus revenue certificates of obligation, series 2020. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's general obligation debt outstanding. The outlook is stable.

The bonds and certificates constitute direct obligations of the city, payable from an annual ad valorem tax levied on all taxable property within the city, within the limits prescribed by law. The certificates are further secured by a pledge of the surplus net revenues of the city's waterworks and sewer system. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax debt and its 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 the city's overall ability and willingness to pay debt service.

Proceeds from the sale of the certificates will be used for constructing improvements and extensions to the city's combined waterworks and sewer system and water re-use system consisting of transmission lines, pump stations and ground storage. Proceeds of the bonds are expected to be used for constructing, improving, extending, expanding, upgrading, and developing streets and roads, bridges and intersections, including utility relocation, landscaping, sidewalks and pedestrian walkway/plaza, traffic safety and operational improvements, the purchase of any necessary land and right-of-way, drainage, and other related costs.

Credit overview

Frisco, which benefits from its favorable location in the Dallas Fort Worth metroplex, maintains stable credit metrics despite difficulties caused by the COVID-19 pandemic. The city has established a long trend of stable fiscal performance, which is supported by continued economic development, subsequent growth in revenues, and well-established fiscal management practices. The city also has made 2020 budget corrections as it anticipates revenue weakness due to the global pandemic. We believe the city should have the financial flexibility to withstand any revenue declines. Long-term effects will depend on the severity of the recession. (For more information, see "U.S. Economic Update: A Recovery At Risk As COVID-19 Surges," published July 22, 2020, on RatingsDirect.) Future credit

reviews will focus on what influence the current situation has on the city and management's ability to respond in a timely and appropriate fashion to ensure maintenance of stable key credit metrics.

Key credit considerations include:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 45% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.1% of total governmental fund expenditures and 124.2% of governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 26.6% of expenditures and net direct debt that is 228.8% of total governmental fund revenue; and
- Strong institutional framework score score.

Environmental, social, and governance factors

Our analysis of these risks encompasses our review of environmental, social, and governance risks that currently exist. Most notably, the ongoing pandemic and the social risk arising from it have led to implementing social distancing measures and disrupted traditional commerce. As a consequence, certain key revenues could weaken materially. We have also analyzed the environmental and governance risks and have determined that they are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the city's budgetary performance weakens, resulting in deterioration of its flexibility to levels no longer comparable with its peers. We could also lower the rating if the city's fix cost burden negatively impacts or challenges its budgetary performance.

Very strong economy

We consider Frisco's economy very strong. The city, with an estimated population of nearly 200,000, is located in Collin and Denton counties in the Dallas-Fort Worth-Arlington, TX MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 172% of the national level and per capita market value of \$180,506. Overall, the city's market value grew by 7.8% over the past year to \$31.7 billion in 2020. The weighted-average unemployment rate of the counties was 3.1% in 2019.

Credit Opinion

Frisco is roughly 30 miles north of downtown Dallas and has experienced solid market value growth over the last decade. The current certified value represents a 7.8% increase over the previous year and is composed predominately of single-family residential properties (62.7% of total tax base), commercial and industrial properties (16%), and multi-family residential properties (7.6%). The city's top 10 taxpayers are diverse, make up only 4.2% of the total tax base and include a large mall, commercial real estate, apartments, and several hospitals. Despite some concern over commercial office space property values, officials note several large developments continue in various phases of construction or build-out, including the new home to the Professional Golf Association's headquarters building. Residential growth is also strong in the city and resident wealth levels have historically remained above average. Based on ongoing development in the area, officials anticipate a continued trend of steady growth.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Financial management practices include use of at least five years of historical trend analysis in developing revenue and expenditures assumptions for budgeting purposes. City officials provide monthly budget-to-actual reports to the city council and can amend the budget on an ad-hoc basis. The city maintains a five-year capital improvement plan (CIP) which is updated annually. The city's CIP coincides with its bond program. The city utilizes a multi-year financial forecast where future issues are identified, and revenue and expenditure decisions are made from a long-term perspective. The council has adopted a formal investment management policy that it reviews and approves annually. Management also provides the city council with quarterly investment holdings and returns. While the city has a debt management policy, in our view the policy is not overly restrictive in nature. The city also maintains a formal reserve policy of 25% of operating expenditures which it exceeds.

Strong budgetary performance

Frisco's budgetary performance is strong in our opinion. The city had operating surpluses of 7.3% of expenditures in the general fund and of 14.4% across all governmental funds in fiscal 2019.

Despite the onset of COVID-19, a surge in cases in Texas, and negative impacts to some revenue streams, we anticipate the city's budgetary performance will remain stable due in large part to the city's ability to make mid-year adjustments as well as adherence to fiscal management practices. In fiscal 2019, general fund revenues of \$170.6 million outpaced expenditures by \$11.1 million prior to transfers. General fund revenues were primarily derived from property taxes (48%), sales taxes (26%), licenses and permits (7%), and franchise taxes (6%). Solid revenue collections over budget, close monitoring of expenditures, and other positive budget variances aided the strong budgetary performance for the year.

The global pandemic and threat of revenue loss led the city to make several key changes in fiscal 2020 to ensure stability in fiscal performance. It established a hiring freeze, except for public safety positions, reduced discretionary spending and budgets throughout various departments, and closed down some facilities such as the senior center,

among other budget reduction measures. Sales tax collections year-to-date remain positive when compared to the previous year due in large part to solid gains from the first half of the fiscal year. The city does anticipate hotel and motel tax revenues to remain weak throughout the fiscal year and is preparing for below-trend numbers in fiscal 2021. Despite the revenue pressure, the city expects balanced operations for 2020. Given current year-to-date estimates and historical performance, we expect the city will sustain at least strong budgetary performance in the near term.

Very strong budgetary flexibility

Frisco's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 45% of operating expenditures, or \$72.5 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.

For fiscal 2019, the city added \$12.2 million to the available fund balance. Given year-to-date trends and expectations, we expect that its budgetary flexibility will remain very strong and in excess of 30% of operating expenditures. Stable and strong budgetary performance will allow for maintenance of very strong reserves over the near to medium term.

Very strong liquidity

In our opinion, Frisco's liquidity is very strong, with total government available cash at 33.1% of total governmental fund expenditures and 124.2% of governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

We anticipate the city's very strong cash position will remain solid over the next two years. Currently, all of the city's investments comply with Texas statutes and the city's investment policy. Its investments are predominantly held in federal agency notes and rated investment pools, which we don't consider aggressive. Our opinion that the city maintains exceptional access to external liquidity is based on its history of issuing GO debt as well as having issued revenue debt in the past. The city does not have any direct purchase agreements or privately placed debt that could pressure its liquidity.

Very weak debt and contingent liability profile

In our view, Frisco's debt and contingent liability profile is very weak. Total governmental fund debt service is 26.6% of total governmental fund expenditures, and net direct debt is 228.8% of total governmental fund revenue.

The city's historically high debt profile is in part due to managing significant increase in service demand and population growth. We do not anticipate additional debt or the city's very high and weak debt profile will have a material effect on the city's overall credit quality. Plans for additional borrowing are expected in the next two years for various projects as the city continues to manage in an environment of high growth and development. The city did delay borrowing for the construction of a new library, but anticipates will revisit moving forward in 2021. The city has no variable rate debt nor any swaps outstanding.

Frisco's pension contributions totaled 5.2% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

We do not anticipate any direct credit pressure from the city's involvement with its pension and OPEB obligations. The city participates in the following plans:

- The Texas Municipal Retirement System (TMRS), funded ratio of 80% and net pension liability of \$54.7 million.

The city contributes to a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. Under state law governing the TMRS, an actuary determines the contribution rate annually. The city does not provide postretirement health or dental care benefits to retirees. Retired employees are entitled to elect continuation coverage under the city's health insurance plan. However, they are responsible for 100% of the premium costs and this plan is not part of the city's active employee plan but included in a separate risk pool. Therefore, the city has no direct or implicit cost for retirees' health care coverage and no measurable OPEB liability.

Strong institutional framework

The institutional framework score 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

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