

Rating Action: Moody's assigns Aaa to City of Frisco, TX's GOLT debt; outlook is stable

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New York, November 23, 2020 -- Moody's Investors Service has assigned Aaa ratings to the City of Frisco, TX's \$108.3 million General Obligation Refunding and Improvement Bonds, Series 2021 and \$21 million Combination Tax and Surplus Revenue Certificates of Obligation, Series 2021. Moody's maintains a Aaa issuer rating and a Aaa rating on the city's outstanding general obligation limited tax (GOLT) debt, which will total \$923 million post-sale. The outlook is stable.

RATINGS RATIONALE

The Aaa issuer rating reflects the city's large and growing tax base located in the desirable north Dallas area, healthy resident income levels, and a strong fiscal position supported by prudent financial practices. The rating further incorporates the high demand for infrastructure and services to accommodate rapid growth which will continue to drive an elevated but affordable debt profile. Additional considerations include a modest pension liability and ample taxing headroom.

The lack of rating distinction between the issuer rating and the GOLT rating reflects the ample taxing headroom under the limited tax cap for more than three times debt service, offsetting the lack of a full faith and credit pledge and the inability for the city to increase the rate above the cap.

The coronavirus pandemic is not a key driver of this rating action, given that the city did not draw on reserves in fiscal 2020, despite a slowdown in sales tax collections, which comprise approximately a quarter of general fund revenue. Additionally, the city maintains adequate financial flexibility to weather any moderate revenue declines or one-time expenditures related to the pandemic.

RATING OUTLOOK

The stable outlook reflects the city's large tax base to remain stable over the medium term from new residential and commercial development, and a strong financial position that will remain stable supported by a proactive management team through prudent budgetary practice, despite a reliance on economically sensitive revenues.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Materially increase in debt burden absent corresponding tax base growth
- Significant deterioration of available operating reserves
- Considerable tax base decline

LEGAL SECURITY

The bonds and certificates are secured by a direct and continuing annual ad valorem tax, levied on all taxable property, within the limits prescribed by law. Additionally, the certificates are secured by a pledge of surplus net revenues of the city's waterworks and sewer system.

USE OF PROCEEDS

Proceeds from the bonds will be used to fund various infrastructure improvements throughout the city and to partially refund the General Obligation Refunding and Improvement Bonds, Series 2011. Proceeds from the certificates will be used to fund upgrades to the city's water and wastewater systems.

PROFILE

The City of Frisco is largely a bedroom community located 25 miles north of the City of Dallas (A1 stable) in west central Collin County (Aaa stable) and east central Denton County (Aaa stable). The local economy benefits from its proximity to major employment centers in Richardson (Aaa stable), Plano (Aaa stable) and Dallas.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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