S&P Global Ratings

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Summary:

Frisco, Texas; General Obligation

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Summary:

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Credit Profile		
US$83.875 mil GO rfdg and imp bnds ser 2022 dtd 12/01/2021 due 02/01/2042		
Long Term Rating	AAA/Stable	New
US$39.72 mil combination tax and surplus rev certs of oblig taxable ser 2022B dtd 12/01/2021 due 02/15/2042		
Long Term Rating	AAA/Stable	New
US$12.9 mil combination tax and surplus rev certs of oblig ser 2022A dtd 12/01/2021 due 02/15/2042		
Long Term Rating	AAA/Stable	New
US$12.0 mil GO bnds, taxable series 2022 dtd 12/01/2021 due 02/15/2042		
Long Term Rating	AAA/Stable	New
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Frisco, Texas' roughly $83.875 million series 2022 general obligation (GO) refunding and improvement bonds, $12 million taxable series 2022 GO bonds, $12.9 million series 2022A combination tax and surplus revenue certificates of obligations (COs), and $39.72 million taxable series 2022B combination tax and surplus revenue COs. At the same time, we affirmed our 'AAA' rating, with a stable outlook, on the city's existing GO debt.

The GO bonds and the city's GO debt outstanding are payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city. The COs are additionally secured by surplus revenue of the waterworks and sewer system. Given the narrow pledge of the surplus revenues, we rate the COs based on city's GO pledge.

The ad valorem taxes are not levied on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service. Based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019), we view the limited-tax GO debt pledge to be on par with the issuer credit rating, which reflects the city's general creditworthiness. Texas statutes provide for a maximum ad valorem tax rate of $2.50 per $100 of taxable assessed valuation (AV) for all purposes, including a maximum of $1.50 of the $2.50 for all ad valorem tax obligation debt service. In fiscal 2022, the city's levy is well below the maximum at 44.66 cents per $100 of AV, 15.14 cents of which is dedicated to debt service.

The proceeds of the following bonds will be used:

- To refund a portion of the city's existing debt for interest savings and various public safety, community, street, and park projects (series 2022 GO refunding and improvement bonds);
- To fund a performing arts center (taxable series 2022GO bonds);

- To fund water and sewer projects (series 2022A COs); and
- For various city projects (taxable series 2022B COs).

Frisco's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the city has a predominantly locally derived revenue base, with over 73% of general fund revenue derived from local property and sales taxes, with independent taxing authority; therefore, we believe pledged revenue supporting debt service on the bonds have a limited risk of negative sovereign intervention.

Credit overview

Frisco benefits from its favorable location in the Dallas-Fort Worth metroplex. Despite impacts from the pandemic, it maintains stable credit metrics. The city has established a long trend of stable fiscal performance, which is supported by continued economic development, subsequent growth in revenue, and well-established fiscal management practices. We believe Frisco will have the financial flexibility to withstand any revenue declines or budgetary stress in the near term. While the economic growth can support the growing debt and rising operating expenditure, should growth-related needs pressure the city's budgetary performance, we could lower the rating.

The rating reflects our opinion of Frisco's:

- Expanding local economy, participating in a broad and diverse Dallas- Ft Worth metropolitan statistical area (MSA);
- Good financial management policies and practices with a strong institutional framework;
- Expectation of positive fiscal year-end 2021 results with the city's maintaining very strong liquidity and fund balance; and
- Very weak debt to support the population growth, services and infrastructure.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to Frisco's economy, management, financial measures, and debt and liability profile and have determined all are in line with our view of the sector standard. Given the city's location and the minimal water exposure from the local lake, the city has minimal environmental risk in our opinion. Furthermore, we note that the city has adequate cyber security practices and policies in place, including cyber insurance. Although there are frequent cyber attacks, the city's systems have not been affected and the city has not had to pay ransom to recover its systems.

Stable Outlook

Downside scenario

We could lower the rating if the growth-related pressure were to hamper the city's budgetary performance and hinder its ability to meet its debt obligations.

Credit Opinion

Expanding local economy from commercial and residential development with a significant tax base growth projected

Frisco is about 30 miles north of downtown Dallas and continues to benefit from its participation in the Dallas Fort Worth MSA. The city's tax base is significant, coming in at $36.6 billion, and is composed predominately of single-family residential properties (62.7% of the total tax base), commercial and industrial properties (16.0%), and multifamily residential properties (7.6%). Projected county population growth of roughly 30% is spurring various developments within city limits and exceeds the national average, with the city's projected population growth of 5%. Notable developments include 2,365 residential and 67 commercial permits, as well as five new mixed-used development encompassing 25,000 acres that will be developed within the next 10 years, including corporate campuses, residential development, retail establishments, a PGA office, golf courses, hotels. Based on these projects, officials project tax base to increase by another $10 billion over the next 10 to 20 years, with 5% to 8% annual tax base growth.

Good financial management policies and practices with a focus on long-term capital and financial planning

Financial management practices include use of at least five years of historical trend analysis in developing revenue and expenditure 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 CIP coincides with its bond program. Frisco uses a multiyear financial forecast in which 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. Although Frisco has a debt management policy, in our view the policy is not overly restrictive. It also adheres to a formal reserve policy of 25% of operating expenditures, which it exceeds.

Positive operating and total governmental results further support its very strong budgetary flexibility and liquidity

Based on the surplus operating and total governmental results in fiscal 2020, unaudited actuals for fiscal 2021, and a balanced budget for fiscal 2020, we expect the city's budgetary performance will remain strong. Frisco reported an $11.8 million surplus, or 7.3% of operating expenditures, in fiscal 2020 primarily due to less than budgeted operating expenditures due to the shut down in response to the COVID19 pandemic, increased online spending, federal stimulus support (CARES Act) that covered the public safety salaries.

For fiscal 2021, the pandemic had minimal impact on the city's finances. While parks and recs, court, other charge for services fees were down, this was offset by the growth in property and sales tax revenues. The unaudited results indicate the operating revenues exceeded the expenditures by roughly $9 million, and management intends to transfer roughly $3.5 million into its capital project fund and reallocate the available reserves for future projects. Based on this estimate, we expect the available reserves at fiscal 2021 to be roughly $83.3 million, or 45.7% of operating expenditures, which exceeds its formal reserve policy of maintaining 25% of operating expenditures.

For fiscal 2022, the city adopted a balanced budget, reflecting an operating budget of $198.3 million. The 8.7% operating expenditure growth reflects salary increase for market adjustment, adding 47 full-time employee positions within the city, vehicle and equipment replacements, technology upgrade, delayed purchases due to the supply chain limitations during fiscal 2021.

Further strengthening an providing stability to Frisco's finances are the $16 million in American Rescue Act Plan stimulus. The city has received half of the allotted amount to date and expect to receive the remainder in fiscal 2022. Officials intend to maintain this fund outside of general fund for future infrastructure projects in the near term.

The city had at least $151.6 million in available cash and equivalents available for liquidity purposes at the end of fiscal 2020. Management reports no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Sizable outstanding debt with additional debt plans to support the city's growth

After this issuance, and net of self-supporting debt supported by the water and sewer systems, the city's outstanding debt is roughly $886.4 million. Given the growing nature of the city and its infrastructure and service needs, the city plans to issue roughly $64.8 million in fiscal 2023 and $48.6 million in fiscal 2024. While the size of the issuances are significant officials anticipate maintaining the interest and sinking (I&S) levy below 16 cents as some of the existing debt will be retiring within the next two years, along with material tax base growth. As of fiscal 2022, the city levies 15.14 cents for the I&S rate.

Manageable pension and other postemployment benefit liabilities, with low pressure on its budget

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

- The Texas Municipal Retirement System (TMRS), funded ratio of 80% and net pension liability of $38.7 million. The city contributes to a nontraditional, joint contributory, hybrid defined-benefit pension plan administered by the TMRS. The agent multiple-employer retirement plan's contributions are actuarially determined under state law governing the TMRS and the city has met its obligations annually.
- Frisco 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 minimal direct or implicit cost for retirees' health care coverage and has a measurable OPEB liability of $1.79 million.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Frisco, Texas--Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Very strong economy				
Projected per capita EBI % of U.S.	168			
Market value per capita ($)	204,046			

Frisco, Texas--Key Credit Metrics (cont.)	Most recent	Historical information		
		2020	2019	2018
Population		179,587	175,355	169,186
County unemployment rate(%)		6.4		
Market value ($000)	36,643,992	31,652,547		
Ten largest taxpayers % of taxable value	4.1			
Strong budgetary performance				
Operating fund result % of expenditures		7.3	7.3	4.2
Total governmental fund result % of expenditures		15.2	14.4	14.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		48.9	45.3	41.7
Total available reserves ($000)		78,831	72,539	64,320
Very strong liquidity				
Total government cash % of governmental fund expenditures		55	33	40
Total government cash % of governmental fund debt service		200	124	159
Strong management				
Financial Management Assessment	Good			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		27.2	26.6	25.0
Net direct debt % of governmental fund revenue	230			
Overall net debt % of market value	7.3			
Direct debt 10-year amortization (%)	69			
Required pension contribution % of governmental fund expenditures		5.0		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 30, 2021)		
Frisco comb tax & surplus rev certs of oblig ser 2021 dtd 12/01/2020 due 02/15/2040		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of November 30, 2021) (cont.)		
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO		
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Frisco GO		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO rfdg & imp bnds ser 2021 dtd 12/01/2020 due 02/15/2040		
Long Term Rating	AAA/Stable	Affirmed
Frisco GO (AGM)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, 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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.