S&P Global Ratings

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Summary:

Frisco, Texas; General Obligation

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Credit Profile		
US$45.520 mil GO bnds ser 2017 dtd 06/01/2017 due 02/15/2037		
Long Term Rating	AA+/Stable	New
US$14.490 mil comb tax and surplus rev certs of oblig ser 2017 dtd 06/01/2017 due 02/15/2037		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Frisco, Texas' $45.5 million series 2017 general obligation (GO) bonds and $14.5 million series 2017 combination tax and surplus revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the city's GO bonds and certificates of obligation outstanding. The outlook is stable.

The bonds are payable from revenue from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city. The certificates are payable from revenue from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city, and from surplus net revenue of the city's water system, not to exceed $1,000. Given the limited nature of the revenue pledge, we rate the certificates based on the city's GO pledge. State statutes limit the maximum ad valorem tax rate for home rule cities to $2.50 per $100 of taxable assessed valuation (AV) for all city purposes. Administratively, the Texas attorney general will permit the allocation of $1.50 of the $2.50 maximum tax rate for ad valorem tax debt service. In fiscal 2017, the city is levying 45 cents, of which 15.6 cents is dedicated to debt service and the remaining 29.4 cents for operations. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit. We believe the city possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax GO bonds. Proceeds from the bonds will fund firefighting and road improvements. Proceeds from the certificates will fund water and sewer improvements.

The rating reflects our opinion of the city's:

- 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 (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 41% of operating expenditures;
- Very strong liquidity, with total government available cash at 57.2% of total governmental fund expenditures and 2.3x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges at 25.0% of expenditures and net direct debt that is 249.6% of total governmental fund revenue, but rapid amortization, with 66.0% of debt scheduled

to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Frisco's economy very strong. The city, with an estimated population of 151,618, is located in Collin and Denton counties in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 158% of the national level and per capita market value of $160,162. Overall, the city's market value grew by 16.2% over the past year to $24.3 billion in 2017. The weight-averaged unemployment rate of the counties was 3.5% in 2016.

Encompassing approximately 70 square miles in Collin and Denton counties, Frisco is roughly 30 miles north of downtown Dallas. According to U.S. Census estimates released in May 2017, the city had the second-fastest growing population in 2016 among all U.S. cities with populations exceeding 50,000. The metroplex's northward expansion over the past decade has spurred the city's significant commercial and retail development and residential growth. With approximately 40% of the city undeveloped, the rapid growth is expected to continue over at least the next several years.

Residential and commercial growth continue at a robust pace. The city added five corporate and regional headquarters during 2016: Jamba Juice, Preferred Medical Imaging Inc., Schneider Optical Machines, CalAtlantic Homes of Texas, and FM Global. Texas Scottish Rite Hospital for Children broke ground on its 40-acre North Campus, expected to open in 2018. Progress also continues on Frisco's $5 Billion Dollar Mile. Within the one-mile stretch of the Dallas North Tollway, development projects represent more than $5 billion in capital investment. In 2016, the Dallas Cowboys moved into their world corporate headquarters at The Star, one of the signature projects within the $5 Billion Dollar Mile. Construction at The Star is also underway for a 300-room Omni Hotel, the nine-story Baylor Scott & White Sports Therapy & Research Center, and retail development that includes more than a dozen restaurants.

More than 2,100 new single-family permits were issued in 2016 and the city estimates approximately 1,500 to 2,000 permits for fiscal 2017. As of December 2016, there were over 7,000 single-family lots and nearly 7,000 of multifamily and urban living mixed used projects in the pipeline, including over 4,400 under construction.

Taxable AV has increased by an aggregate 72% over the past five years to $24.3 billion in fiscal 2017. The city's property tax base is predominantly residential (64.3%, before exemptions), followed by commercial and industrial at approximately 15%. The largest 10 taxpayers are very diverse, accounting for 3.8% of fiscal 2017 market value, and span commercial, retail, real estate, and health care. The city's largest employers include Frisco Independent School District (6,000 employees), the city itself (1,275), pharmaceutical distributor Amerisource Bergen Specialty Group (1,200), mortgage service provider Wingspan (1,100), and Conifer (728).

Strong management

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

Highlights of the city's management practices include its use of at least five years of historical trend analysis in developing its 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) that is updated annually; the CIP coincides with the city's bond program. 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 comprehensive. The city also maintains a formal reserve policy of 25% of operating expenditures, which it exceeds. We understand that the city does not maintain a formal long-term financial management plan.

Strong budgetary performance

Frisco's budgetary performance is strong, in our opinion. The city had operating surpluses of 7.1% of expenditures in the general fund and of 11.2% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2016 results in the near term.

The strong performance in fiscal 2016 resulted in part from stronger-than-anticipated license and permit revenue coupled with continued expenditure controls. The city's primary general fund revenue sources were property taxes (43%), sales tax (28%), and licenses and permits (9%). Public safety is the largest expenditure category, accounting for 47% of general fund expenditures in fiscal 2016.

After adjustment for a one-time contribution into the city's capital projects fund and total governmental expenditures for the use of bond proceeds and contributions, the city's total governmental result was also positive.

The city adopted a balanced fiscal 2017 budget. Year-to-date revenue and expenditures are trending positively. Based on those results, we expect the city to end the year (Sept. 30) with at least break-even results. The city has not finalized its fiscal 2018 budget, but we anticipate that the city's major revenue streams will continue to grow and its budgetary performance will remain at least strong over the next two years given the city's historically positive variances.

Very strong budgetary flexibility

Frisco's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 41% of operating expenditures, or $52.3 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. Over the past three years, the total available fund balance has remained consistent, totaling 40% of expenditures in 2015 and 41% in 2014.

Given our expectation that the city will sustain at least strong budgetary performance in fiscal years 2017 and 2018, we anticipate that its budgetary flexibility will remain very strong and in excess of 30% of operating expenditures over the next two years.

Very strong liquidity

In our opinion, Frisco's liquidity is very strong, with total government available cash at 57.2% of total governmental fund expenditures and 2.3x governmental debt service in 2016. In our view, the city has exceptional access to external liquidity if necessary.

Frisco has historically had what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will materially weaken over the next two years. 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 has no direct purchase agreements or privately placed debt that could pressure its liquidity.

Weak debt and contingent liability profile

In our view, Frisco's debt and contingent liability profile is weak. Total governmental fund debt service is 25.0% of total governmental fund expenditures, and net direct debt is 249.6% of total governmental fund revenue. Approximately 66% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

As part of the city's capital improvement plan, the city plans to issue the remaining voter-authorized GO debt, or approximately $133 million, through fiscal 2019. We do not anticipate that the addition of the debt will materially affect the city's overall credit quality given its ability to manage its obligations.

Frisco's pension contributions totaled 4.1% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

The city contributes to a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Under state law governing the TMRS, an actuary determines the contribution rate annually. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the city recorded a net pension liability of $38.5 million as of Dec. 31, 2015, the most recent actuarial valuation date, and the plan reported a funded ratio of 79.5%.

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 for Texas municipalities is strong.

Outlook

The stable outlook reflects our expectation that the city will continue to benefit from its participation in the Dallas-Fort Worth-Arlington metroplex, further supporting its very strong economic metrics. Additionally, we anticipate that the city will sustain strong budgetary performance and very strong budgetary flexibility. Consequently, we don't anticipate changing the rating within the two-year outlook horizon.

Upside scenario

We could raise the rating if the city's debt profile moderates to a level in line with that of higher-rated peers.

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 those of its peers, assuming all other factors remain unchanged.

Related Research

2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 30, 2017)		
Frisco comb tax and ltd surp rev certs of oblig (Taxable)		
Long Term Rating	AA+/Stable	Affirmed
Frisco GO		
Long Term Rating	AA+/Stable	Affirmed
Frisco GO		
Long Term Rating	AA+/Stable	Affirmed
Frisco GO		
Long Term Rating	AA+/Stable	Affirmed
Frisco GO		
Long Term Rating	AA+/Stable	Affirmed
Frisco GO		
Long Term Rating	AA+/Stable	Affirmed
Frisco GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Long Term Rating	AA+/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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.