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Ratings

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Summary:

Frisco, Texas; General Obligation

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Summary:

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Credit Profile		
US$35.0 mil comb tax & rev certs of oblig ser 2019 dtd 01/15/2019 due 02/15/2039		
Long Term Rating	AAA/Stable	New
Frisco GO		
Long Term Rating	AAA/Stable	Upgraded
Frisco GO		
Long Term Rating	AAA/Stable	Upgraded

Rationale

S&P Global Ratings has raised its long-term rating on Frisco, Texas' general obligation (GO) bonds and parity certificates of obligation to 'AAA' from 'AA+'. At the same time, S&P Global Ratings assigned its 'AAA' rating to the city's combination tax and revenue certificates of obligation, taxable series 2019. The outlook is stable.

The upgrade reflects continued strength within the local economy that benefits from the greater Dallas-Fort Worth metropolitan statistical area (MSA), good fiscal management practices that yield positive results, and consistently very strong reserve levels. Despite a high debt profile that is somewhat reflective of significant market value growth and the need to manage a large and steady increase in service demand and infrastructure needs, the city's key credit metrics and financial flexibility are reflective of our highest rating category.

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 in the city, and from surplus net revenue of the city's water system. Given the limited revenue pledge of the water system, we rate the certificates based solely on the limited tax pledge. State statutes limit the maximum ad valorem tax rate for home rule cities to $2.50 per $100 of taxable assessed valuation for all city purposes. The Texas attorney general permits the allocation of $1.50 of the $2.50 maximum tax rate for ad valorem tax debt service. Frisco levies 44.6 cents, of which 15.32 cents is dedicated to debt service and 29.34 cents to operations. Based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," (published Jan. 22, 2018), we do not differentiate between the city's limited-tax GO debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources.

Proceeds of the sale of certificates will be used for (i) acquiring, installing, constructing, and equipping two 18-hole golf courses, one nine-hole golf course, golf-related developmental practice areas, clubhouse, public hike and bike trails, and public parking areas, which are to be publicly owned and leased to a private entity; and (ii) legal, fiscal, and engineering fees in connection with these projects. The projects are all associated with the Professional Golfers' Association of America's (PGA) announcement that it will move its headquarters to Frisco from Florida.

The rating reflects our opinion of the city's:

- Very strong economy, with access to a broad and diverse 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 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 43% of operating expenditures;
- Very strong liquidity, with total government available cash at 46.8% of total governmental fund expenditures and 1.9x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability profile, with debt service carrying charges at 25.1% of expenditures and net direct debt that is 248.3% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Frisco's economy very strong. The city, with an estimated population of 190,620, 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 170% of the national level and per capita market value of $153,978. Overall, the city's market value grew by 10.6% over the past year to $29.4 billion in 2019. The weight-averaged unemployment rate of the counties was 3.4% in 2017.

Frisco is about 30 miles north of downtown Dallas. The city continues to experience rapid development, and is one of the fastest-growing cities in the region. The tax base is primarily made up of single-family residential properties (64% of the total tax base), commercial properties (16%), multi-family residential properties (6%), and acreage (5%). The top 10 taxpayers make up a modest 5% of the total tax base and include a shopping mall, several retail developments, an entertainment complex, apartment complex, and hospital. Frisco is home to several national corporate headquarters. Several hospitals have also recently expanded operations in the city. In addition to the school district, leading employers are associated with pharmaceutical distribution, health care management, telecommunications, and information technology. Operations at other large developments, such as the Star and Texas Scottish Rite Hospital for Children, remain stable. Residential growth is also strong and resident wealth levels have historically remained above average.

In late 2018, the PGA announced that it will relocate its headquarters to Frisco from Florida. The PGA will anchor a 600-acre mixed-use development that will include a hotel, convention center, and retail space as well as two public golf courses and practice facilities. The golf courses are expected to open in 2022. The hotel, convention center, and other facilities are expected to open within six months of that date. The site is expected to host several professional men's and women's golf events. Given ongoing and future expected development, we anticipate continued stable growth and for the local economy to remain very strong.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. Improvement in Frisco's long-term financial plan and debt policies positively affected our view of the city's overall fiscal management policies.

Financial management practices include use of at least five years of historical trend analysis in developing revenue and expenditures assumptions for budgeting purposes. 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 the city's bond program. Frisco uses 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 and has implemented new enhancements, in our view the policy is not overly restrictive. Frisco 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 2.8% of expenditures in the general fund and of 7.0% across all governmental funds in fiscal 2017.

For 2017, general fund revenues were primarily derived from property taxes (46%), sales taxes (27%), and licenses and permits (8.5%). Strong operating performance includes our adjustments for the city's total governmental revenues for a one-time accounting recognition for a contribution into the capital projects fund and total governmental expenditures for the use of bond proceeds and contributions.

Despite the planned use of carry-over dollars on anticipated projects in 2018 and an initial budget deficit of about $6 million, officials report an expected fiscal year-end (September 2018) general fund operating surplus of about $6.6 million. Solid revenue collections over budget, close monitoring of expenditures, and other positive budget variances aided the expected strong budgetary performance for the year. Officials report no significant expenditures in 2019 in the general fund above and beyond 2018 and year-to-date performance is stable. 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 2017 of 43% of operating expenditures, or $62.5 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.

Given expected solid performance in 2018 and a roughly $6 million operating surplus in the general fund and addition to fund balance, we anticipate that Frisco's budgetary flexibility will remain very strong and in excess of 30% of operating expenditures over the next two years. Stable and strong budgetary performance should allow for 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 46.8% of total governmental fund expenditures and 1.9x governmental debt service in 2017. In our view, the city has exceptional access to external liquidity if necessary.

We do not believe the city's very strong cash position will materially weaken over the next two years. All of Frisco'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 25.1% of total governmental fund expenditures, and net direct debt is 248.3% of total governmental fund revenue. The city's total governmental fund debt service, pension annual required contribution, and other postemployment benefits (OPEB) contribution as a percentage of total governmental fund expenditures for 2017 was a high 29.8%, 4.7% of which was for pensions.

Frisco's historically high debt profile is in part due to managing significant increases in service demand and growth. We do not anticipate additional debt will have a material effect on the city's overall credit quality, which is very weak. The city has plans for additional borrowing in the next two years for various projects. Frisco has no variable-rate debt nor any swaps outstanding.

Frisco's pension contributions totaled 4.7% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution in 2017.

Frisco 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. The city recorded a net pension liability of $41.1 million as of Sept. 30, 2017, and the plan reported a funded ratio of 81.8%.

Frisco will book a small OPEB liability for the TMRS supplemental death benefit ($1.4 million) and retiree health insurance ($4.5 million). The city recently had an actuarial study done and will disclose the liabilities in the 2018 comprehensive annual financial report. The amounts include the total liability for all city funds with no offsetting asset.. Future credit reviews will continue to focus on the city's ability to manage its debt profile.

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 MSA, further supporting its very strong economic metrics. In addition, 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.

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. We could also lower the rating if the city's fixed cost burden negatively affects or challenges its budgetary performance.

Related Research

- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of January 24, 2019)		
Frisco GO		
Long Term Rating	AAA/Stable	Upgraded
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Long Term Rating	AAA/Stable	Upgraded
Frisco GO		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
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.