S&P Global
Ratings

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Summary:

Trophy Club, Texas; General Obligation

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Summary:

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Credit Profile		
US$4.5 mil comb tax & rev certs of oblig ser 2021 dtd 09/01/2021 due 03/01/2041		
Long Term Rating	AA+/Stable	New
Trophy Club GO		
Long Term Rating	AA+/Stable	Affirmed
Trophy Club GO		
Long Term Rating	AA+/Stable	Affirmed
Trophy Club Twn GO bnds ser 2016 dtd 05/01/2016 due 09/01/2017-2036		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Trophy Club, Texas' approximately $4.5 million series 2021 combination tax and revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its long-term 'AA+' rating on the town's general obligation (GO) and certificates outstanding. The outlook is stable.

The certificates constitute direct obligations of the town, payable with revenue from an annual ad valorem tax levied against all taxable property, within the limits prescribed by law, and are further secured by, and payable from, a lien on and limited pledge (not to exceed $1,000) of the net revenue derived from the operation of the town's drainage system. Given the de minimis revenue pledge, we rate the certificates based solely on the town's GO pledge. The maximum allowable ad valorem tax rate for Texas home rule cities is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50. The town's total tax rate is well below the maximum, at 44.6 cents, 11 cents of which is dedicated to debt service. We do not differentiate between the town's limited-tax GO debt and its general creditworthiness given that the ad valorem tax is not derived from a measurably narrower tax base and that there are no limitations on the fungibility of the town's general resources. Proceeds from the certificates will fund drainage system improvements, street improvements, and park projects.

Credit overview

Serving as an affluent bedroom community, Trophy Club has benefited from its population and tax base growth over the past decade or more. Given employment expansions and an active housing market, we expect that home values and development will continue, supporting ongoing revenue growth. Largely as a result of this revenue growth, combined with good management practices and policies that underpin generally conservative budget assumptions, the town has a history of general fund surpluses. This budgetary performance trend continued despite the COVID-19 pandemic, and we expect that continuing federal stimulus funds will support the town's near-term capital needs, thereby limiting any growth in debt issuance. Given these factors, we expect stability over the next two years.

The rating reflects our opinion of the town'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 methodology;
- Strong budgetary performance, with operating results that we expect could level out in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 66% of operating expenditures;
- Very strong liquidity, with total government available cash at 109.7% of total governmental fund expenditures and 3.7x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 29.5% of expenditures and net direct debt that is 313.7% of total governmental fund revenue, but rapid amortization, with 69.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance factors

We assessed the town's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. We view the town's population growth over the past 20 years as a social opportunity, as it provides underlying economic strength to drive employment opportunities when compared with areas of the country experiencing population stagnation or loss.

Stable Outlook

Upside scenario

All else equal, we could consider a positive rating action if the town's debt profile, particularly its annual carrying charges, were to moderate materially.

Downside scenario

Conversely, we could consider a negative rating action if the town's financial performance deteriorates, leading to sustained and significant drawdowns in reserves.

Credit Opinion

Very strong economy

We consider Trophy Club's economy very strong. The town, with an estimated population of 13,448, is located in Denton and Tarrant counties in the Dallas-Fort Worth-Arlington MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 206% of the national level and per capita market value of $169,284. Overall, the town's market value grew by 6.2% over the past year to $2.3 billion in 2021. The weight-averaged unemployment rate of the counties was 6.5% in 2020.

Trophy Club is an affluent, primarily residential, suburb 25 miles northeast of downtown Fort Worth and 27 miles northwest of downtown Dallas. The town has experienced significant development over the past two decades, roughly doubling its population since the 2000 U.S. Census. While officials report that the town is approaching built-out status, the recent relocation of Charles Schwab's headquarters has helped sustain development. We note that a mixed-use development known as the Trophy Club Town Center is nearing completion, featuring several retail stores, restaurants, and a hotel. Additionally, a developer is in discussion to bring an 80-home single-family development to the town. With projects nearing completion, and planned developments over the coming years, we expect the town's tax base to continue to expand. As the town reaches built-out status, we believe that the economy will remain very strong.

Strong management

We view Trophy Club's management as strong, with good financial policies and practices under our financial management assessment 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.

Town officials use multiple years of historical data when coming up with revenue and expenditure assumptions, with multiple scenarios generated regarding tax base growth, and the town has a strong record of conservative budgeting. Management presents monthly budget-to-actual reports to the town council with budget amendments as needed throughout the fiscal year. Trophy Club maintains a five-year financial plan, forecasting general fund performance as well as maintaining a rolling, five-year capital improvement plan. The town reports investment holdings and performance quarterly and maintains a formally adopted investment management policy. Trophy Club has formally adopted basic debt management policies, including rate, amortization, and debt-to-AV limits. Its formally adopted reserve policy's goal is to maintain at least 30% of expenditures; management established this policy to ensure sufficient liquidity and funding for any unforeseen operational pressure or capital needs.

Strong budgetary performance

Trophy Club's budgetary performance is strong, in our opinion. The town had operating surpluses of 16.0% of expenditures in the general fund and 13.7% across all governmental funds in fiscal 2020. While we expect Trophy Club to have at least balanced operating results, we do not expect results to be as favorable as in 2020.

Our view of the town's budgetary performance includes adjustments to incorporate recurring transfers as well as one-time capital outlay funded from debt proceeds. Going into fiscal 2020, the town's budget conservatively estimated a modest surplus. However, at the onset of the pandemic the town implemented several cost control measures, including holding open vacant positions and eliminating certain seasonal positions. However, with a revenue mix that largely consists of property taxes (57.0% of general fund resources) and sales taxes (9.5%) the town did not see material declines. With nearly $700,000 in CARES Act revenue received to offset pandemic-related expenses, the town was able to realize a sizable $1.7 million surplus.

The town's fiscal 2021 budget was built using conservative assumptions and with no additional service-level additions. The adopted budget reflected a nearly $1 million assumed deficit. However, through the first three quarters of the town's fiscal year, revenue is above budget while expenses have come under budget. The town anticipates that instead of the adopted deficit, the year will likely end with another surplus. Further bolstering the town's finances are $2.7 million in American Rescue Plan Act funds, half of which will be received by the end of the fiscal year, with the remaining coming in 2022. The town will use the stimulus funds largely for one-time projects. While the 2022 budget has not yet been adopted, the town anticipates that it will reflect a modest surplus. Given the town's historical results and near-term expectations, we believe that budgetary performance will remain strong.

Very strong budgetary flexibility

Trophy Club's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 66% of operating expenditures, or $7 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.

As part of the town's five-year financial forecast, it predicts a use of general fund reserves over the coming years. However, the town has a formal policy to maintain reserves of no less than 30% of expenditures, so we expect no significant spending-down that would reduce fund balance to a level below that. Furthermore, given the expected surplus in fiscal 2021, we believe that balances will grow in the near term.

Very strong liquidity

In our opinion, Trophy Club's liquidity is very strong, with total government available cash at 109.7% of total governmental fund expenditures and 3.7x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary given its issuance of GO debt over the past 20 years. While Texas law allows municipalities to make investments we view as aggressive, the town's investments are limited to highly liquid state investment pools. We expect the town's liquidity profile to remain very strong.

Weak debt and contingent liability profile

In our view, Trophy Club's debt and contingent liability profile is weak. Total governmental fund debt service is 29.5% of total governmental fund expenditures, and net direct debt is 313.7% of total governmental fund revenue. Approximately 69.5% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Following this issuance, the town will have approximately $47 million of direct debt outstanding, nearly half of which is supported by special assessments. Officials anticipate no issuance of additional debt over the next several years, so we expect the town's debt burden to remain stable.

We note that a portion of the town's debt has been privately placed. However, we've reviewed the documents and determined that the transactions contain no unusual provisions, such as acceleration, that could pressure liquidity. In addition, the town has no variable-rate debt or derivative instruments.

Pension and other postemployment benefit (OPEB) liabilities

We do not view pension and OPEB liabilities as an immediate credit risk for Trophy Club. In our view, the pension plan is well funded, and annual costs remain manageable. As a result, we do not anticipate that the town's liabilities will threaten fiscal stability in the medium term.

The town participated in the following plans as of Dec. 31, 2019 (latest measurement date):

- Texas Municipal Retirement System (TMRS), 93.6% funded with a net pension liability equal to $1.4 million
- Postemployment health care benefit, funded on a pay-as-you-go basis with a net OPEB liability of $60,000

Trophy Club's required pension and actual OPEB contributions totaled 4.6% of total governmental fund expenditures in 2020. The city made its full required pension contribution. TMRS' actuarially determined contributions fell slightly short of our minimum funding progress metric, which assesses whether the most recent employer and employee contributions cover total service cost, plus unfunded interest cost, plus one-30th of the principal. When minimum funding progress is achieved, it indicates that an issuer has a strong funding discipline that aims to ensure timely progress on reducing its plans' liabilities. Given that this is an agent plan, assets are jointly managed. The plan uses certain assumptions that could increase contribution volatility, including a 6.75% discount rate, though there are offsetting factors. For more information, see "Pension Spotlight: Texas," published Feb. 25, 2020, on RatingsDirect.

The city also offers retiree health insurance coverage, with retirees required to contribute at a rate equal to 195% of active members. Although the plan is not funded on an actuarial basis, the town's overall OPEB liability is minimal and we don't view it as a near-term credit pressure.

Strong institutional framework

The institutional framework 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
- 2020 Update Of Institutional Framework For U.S. Local Governments