

# RatingsDirect®

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## Summary:

# Corinth, Texas; General Obligation

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## Summary:

# Corinth, Texas; General Obligation

### Credit Profile

US\$8.48 mil comb tax and ltd surplus rev certs of oblig ser 2020 due 02/15/2040

*Long Term Rating* AA/Stable New

Corinth GO

*Long Term Rating* AA/Stable Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA' rating to the City of Corinth, Texas' anticipated \$8.5 million series 2020 combination tax and limited surplus revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's existing general obligation (GO) debt. The outlook is stable.

A limited ad valorem tax, levied on all taxable property within the city, secures the city's certificates and GO bonds. Texas statutes limit the ad valorem tax rate for type A general law cities to \$1.50 per \$100 of taxable assessed valuation (AV) for all city purposes. The Texas attorney general permits the allocation of \$1.00 of the \$1.50 maximum tax rate for ad valorem tax debt service. For fiscal 2020, the city's total levy is was below the maximum at 57.8 cents per \$100 of AV, 13.9 cents of which is dedicated to debt service. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax 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, which supports our view of the city's overall ability and willingness to pay debt service.

The certificates are additionally secured by a limited pledge of net revenues of the city's water and sewer system in an amount not to exceed \$1,000. Given the limitation of the net revenue pledge, the certificates are rated based on the city's ad valorem tax pledge.

Proceeds of the 2020 certificates will finance street, drainage, and water and sewer system projects throughout the city.

### Credit overview

The city continues to experience economic expansion due to population growth and diversified employment opportunities in the Dallas-Ft. Worth-Arlington metropolitan statistical area (MSA). The city is primarily residential in nature, but is experiencing multiple commercial, industrial, and mixed-use developments. The need for additional capital projects related to this growth is reflected in the city's increasing debt burden, which we believe will be manageable and somewhat offset by continued growth in the tax base. The rating reflects consistent financial performance and strong financial policies and practices that support the city's very strong budgetary flexibility, with available fund balances that have historically exceeded its reserve policy goal. The city's very strong reserves position it to address unexpected recessionary pressures due to the COVID-19 outbreak. For S&P Global Economics' most recent view of the U.S. economy see the article titled "The U.S. Economy Reboots, With Obstacles Ahead," published

Sept. 24, 2020, on RatingsDirect.

The rating reflects our opinion of the following credit factors:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2019, which closed with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash at 136.0% of total governmental fund expenditures and 10.3x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 13.2% of expenditures and net direct debt that is 200.9% of total governmental fund revenue; and
- Strong institutional framework score.

### **Environmental, social, and governance (ESG) factors**

We analyzed the city's ESG 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. Our rating also incorporates our view of the risks posed by the COVID-19 pandemic to public health and safety as a social risk, which, if sustained, could weaken the local economy through higher unemployment and disruptions in consumer spending, directly affecting the economically sensitive revenue. Absent the implications of COVID-19, we consider the city's social risks to be in line with those of the sector.

## **Stable Outlook**

### **Downside scenario**

If the city experienced deterioration of budgetary performance that caused sustained decreases in reserves, or the city's debt and pension obligations were to place financial pressure on the city, we could lower the rating.

### **Upside scenario**

Although not likely during the current outlook period, if the city's economic indicators improve to levels we consider comparable with those of higher-rated peers, its debt burden improves, and budgetary performance remains at least adequate, we could raise the rating.

## **Credit Opinion**

### **Very strong economy**

We consider Corinth's economy very strong. The city, with an estimated population of 23,274, is located in Denton County in the Dallas-Fort Worth-Arlington, Texas, MSA, which we consider broad and diverse. The city has a

projected per capita effective buying income of 118% of the national level and per capita market value of \$106,175. The city's market value grew by 4.0% over the past year to \$2.5 billion in 2021.

The city is primarily residential in nature, with the underlying economy further supported by education, health care, and various commercial services. The city continues to experience economic expansion due to population growth and diversified employment opportunities in the Dallas-Ft. Worth-Arlington MSA. Along with local school districts, community college and the city, major employers include CoServ (710 employees) - the second largest electric cooperative in the state, Bill Utter Ford (131), Albertsons (120), DATCU credit union (116), and Huffines Kia Subaru (105).

The city recently established a tax increment reinvestment zone (TIRZ) of noncontiguous parcels along I-35 to promote development through private-public partnerships. The TIRZ base year is 2019, and revenue is shared 50%/50% between the TIRZ and the general fund. The TIRZ will host a mix of office, industrial, commercial, and residential uses. Both within and outside of the TIRZ, various developments are have recently been completed, are under construction, or are proposed, including hotels, mixed-use complexes, and retail, as well as multiunit and single-family residential development. The 2021 AV was \$2.51 billion and \$2.47 billion excluding the TIRZ.

### **Very strong management**

We view the city's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include the following:

- The city uses five years of historical revenue and expenditure data when developing its budget. Management uses a line-by-line approach to building the budget, and works with individual departments within the city as well as the appraisal district when developing budget projections.
- The city can amend its budget as needed, and provides monthly budget-to-actual reports to council.
- The city has a formal investment policy that prioritizes safety of principal and liquidity over returns and requires investments to be managed for cash flow needs. The city provides quarterly reports to the council that include investment holdings and performance.
- The city prepares and annually updates a formal long-term financial plan that includes multiyear projections of revenues and expenditures.
- The city's five-year capital improvement plan identifies projects by type and provides the cost, timing, and funding sources for each project.
- The city's formal reserve policy targets an unassigned general fund balance of 20% of expenditures and requires a minimum fund balance of at least 15% of expenditures.
- During 2020, the city adopted a formal debt policy that outlines procedures for disclosure, debt limits, acceptable types of debt, and minimum refunding savings of 3.5%.

### **Adequate budgetary performance**

Corinth's budgetary performance is adequate, in our opinion. The city had deficit operating results in the general fund of 2.1% of expenditures, but a surplus result across all governmental funds of 5.4% in fiscal 2019. Our assessment accounts for our expectation that budgetary results could improve from 2019 results in the near term. Revenues and expenditures have been adjusted for recurring transfers in and out.

The general fund deficit for fiscal 2019 is primarily attributable to the use of about \$722,000 (4% of expenditures) of capital outlay for various projects. The general fund budget for the fiscal year ended Sept. 30, 2020, included a deficit of \$789,724. Although the city did experience some softening of court fee and public safety fine revenue, estimated results show an increase to the ending fund balance due to reduced spending compared to the budget. The fiscal 2021 budget uses about \$476,000 of fund balance for upgrades to fiber connections between city buildings. The budget also assumes no sales tax or property tax growth, and no raises or new staff positions.

### **Very strong budgetary flexibility**

Corinth's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 30% of operating expenditures, or \$4.9 million. The city has consistently maintained very strong budgetary flexibility at levels that meet or exceed formal reserve policy targets. Based on fiscal 2020 estimated results and conservative revenue estimates for fiscal 2021, we do not expect deterioration in their financial position.

### **Very strong liquidity**

In our opinion, Corinth's liquidity is very strong, with total government available cash at 136.0% of total governmental fund expenditures and 10.3x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary. The city's access to external liquidity is demonstrated through its frequent issuance of GO new-money and refunding bonds over the past 20 years. The city's investments are currently held in U.S. Treasuries, local government investment pools, money market accounts, and bank deposit accounts. We do not consider these investments aggressive. The city does not have any privately placed debt or any variable-rate debt. We expect the city's liquidity to remain very strong, as we do not believe there are any contingent liability risks at this time that could adversely affect the city's cash position.

### **Very weak debt and contingent liability profile**

In our view, Corinth's debt and contingent liability profile is very weak. Total governmental fund debt service is 13.2% of total governmental fund expenditures, and net direct debt is 200.9% of total governmental fund revenue. Proceeds of the 2020 certificates will finance street, drainage, and water and sewer system improvement projects. The city plans to issue about \$2 million of additional debt for a drainage project in its transit-oriented development district (a TIRZ). Given the city's rate of amortization, we do not expect this to materially increase its debt burden. The city also plans to propose a sales tax motor vehicle rental tax on the ballot during the May 2021 election to fund construction of a civic pavilion next to the city hall.

Pensions and other postemployment benefits (OPEBs):

- Pension costs are not a source of credit pressure, given that they represent just 8% of the city's total governmental funds expenditures in fiscal 2019.
- Recent volatility in the markets and the amortization and payroll growth assumptions will likely lead to increased

costs in the future. However, we believe the city has sufficient budgetary flexibility and liquidity to address these costs.

- For OPEBs, the city does not offer a retirement health care benefit, only a supplemental death benefit.

Corinth's combined required pension and OPEB actual contributions totaled 8.0% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

The city provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (TMRS), a multiple employer, defined-benefit pension plan. As of Dec. 31, 2018, the city's proportionate share of the plan is 80.4% funded with a net pension liability of \$8.1 million. Actuarially determined contributions fell slightly short of our minimum funding progress metric (MFP) at 90%, and our static funding calculation at 97%. The MFP metric assesses whether the most recent employer and employee contributions cover total service cost, plus unfunded interest cost, plus one-thirtieth of the principal. When MFP is achieved it indicates that an issuer has a strong funding discipline that aims to ensure timely progress on reducing its plans' liabilities. Actuarial assumptions include a discount rate of 6.75% and a 25-year closed amortization period. The plan's assumed discount rate is not aggressive, in our opinion, although we consider the closed amortization period of 25 years as slightly extended, leaving greater potential for costs to grow based on actual performance. Lastly, contributions are likely to increase given the level percent of payroll funding method, as opposed to level-dollar contributions, which would result in consistent payments. For more information, see "Pension Spotlight: Texas," published Feb. 25, 2020.

The city participates in the following OPEB plan: TMRS Supplemental Death Benefits Plan. The city contributes to the plan at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance.

**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
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 15, 2020)		
Corinth GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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