S&P Global Ratings

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## Summary:

# McKinney, Texas; General Obligation

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**Summary:**

# McKinney, Texas; General Obligation

| Credit Profile | | |
|---|---|---|
| US$52.935 mil GO bnds ser 2023 dtd 06/01/2023 due 08/15/2042 | | |
| *Long Term Rating* | AAA/Stable | New |
| McKinney GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| McKinney GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| McKinney GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

## Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to McKinney, Texas' approximately $52.9 million series 2023 general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the city's parity limited-tax debt outstanding.
- The outlook is stable.

### Security

The bonds constitute direct obligations of the city and are payable from an annual ad valorem tax levied against all taxable property therein, within the limits prescribed by law. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax debt and its general creditworthiness because 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. Proceeds of the bonds will be used to finance various capital projects, including street improvements, and to fund the construction of a new fire department headquarters.

### Credit overview

Benefiting from its favorable location north of Dallas, McKinney continues to experience steadily positive operational performance and robust fund balance levels. Significant population growth and local economic activity have resulted in increasing assessed values, which have grown by 63% over the last five years, leading to higher property tax revenues and sales tax revenues, and we expect this to continue, given ongoing commercial development. A history of solid fiscal performance, a credit positive, is further supported by recent federal aid and strong financial management practices and policies. Fiscal 2023 budgetary projections are currently showing a draw on fund balance; however, based on current budget tracking, management expects a result closer in line with previous years, given on-track expenses and increased sales tax collections lending to better-than-budgeted revenues.

The city has a high debt burden with elevated fixed costs, but overall manageable long-term pension liabilities.

Management, in our view, is solid and its budget assumptions are conservative. While the city's debt profile is very weak and the debt burden is high, they are somewhat reflective of the high growth in service and infrastructure demands that the city faces. Given historically strong performance, we expect the city will maintain positive operations and very strong reserves in the next few years.

Other credit factors include our view of the city's:

- Sizable $32 million tax base and above-average incomes, with access to the Dallas-Fort Worth metropolitan area;
- Conservative management team with a strong financial management assessment (FMA), highlighted by 10-year forecasting and a robust 25% reserve policy;
- Positive operational performance in recent years, leading to a very strong financial position that is expected to be sustained, and a strong institutional framework score; and
- Very weak debt profile, countered by a manageable pension and other postemployment benefits (OPEB) obligation.

### Environmental, social, and governance

We consider the city's social risks an opportunity for the city, as the growing population can result in increased sales tax revenues. We analyzed McKinney's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and view them as neutral in our credit rating analysis.

## Outlook

The stable outlook reflects our expectation that McKinney's robust economic metrics will continue to improve, while the city sustains its very strong budgetary flexibility and liquidity levels, supported by steady operations and good management practices.

### Downside scenario

Although unlikely within the two-year outlook period, we could lower the rating if financial metrics or reserves materially weaken, or if fixed costs such as debt, pension, and OPEB obligations strain the city's stable financial performance or reserves.

### Rating above the sovereign

The city's bonds and certificates 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 "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments are considered to have moderate sensitivity to country risk. The city's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the city's operations. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management, and has no history of government intervention. McKinney has considerable financial flexibility, as demonstrated by its very strong general fund balance as a percentage of expenditures, as well as very strong liquidity.

| McKinney--Key credit metrics | | | | |
|---|---|---|---|---|
| | **Most recent** | **Historical information** | | |
| | | **2022** | **2021** | **2020** |
| **Very strong economy** | | | | |
| Projected per capita EBI % of U.S. | 129 | | | |
| Market value per capita ($) | 163,639 | | | |
| Population | | | 196,399 | 190,111 |
| County unemployment rate (%) | | | 4.3 | |
| Market value ($000) | 32,138,534 | 27,116,136 | 23,406,571 | 22,198,969 |
| Ten largest taxpayers % of taxable value | 4.0 | | | |
| **Strong budgetary performance** | | | | |
| Operating fund result % of expenditures | | 6.7 | 14.4 | 9.6 |
| Total governmental fund result % of expenditures | | 6.9 | 10.6 | 6.7 |
| **Very strong budgetary flexibility** | | | | |
| Available reserves % of operating expenditures | | 56.7 | 59.9 | 54.1 |
| Total available reserves ($000) | | 99,476 | 96,426 | 84,165 |
| **Very strong liquidity** | | | | |
| Total government cash % of governmental fund expenditures | | 61 | 78 | 100 |
| Total government cash % of governmental fund debt service | | 379 | 453 | 555 |
| **Very strong management** | | | | |
| Financial Management Assessment | Strong | | | |
| **Very weak debt & long-term liabilities** | | | | |
| Debt service % of governmental fund expenditures | | 16.0 | 17.2 | 17.9 |
| Net direct debt % of governmental fund revenue | 140 | | | |
| Overall net debt % of market value | 4.9 | | | |
| Direct debt 10-year amortization (%) | 54 | | | |
| Required pension contribution % of governmental fund expenditures | | 6.0 | | |
| OPEB actual contribution % of governmental fund expenditures | | 0.1 | | |
| **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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

| Ratings Detail (As Of May 18, 2023) | | |
|---|---|---|
| McKinney GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

| Ratings Detail (As Of May 18, 2023) (cont.) | | |
|---|---|---|
| McKinney GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
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