

# RatingsDirect®

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## Summary:

# Copperas Cove, Texas; General Obligation

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## Summary:

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### Credit Profile

US\$9.93 mil comb tax & rev cert of oblig ser 2017 dtd 07/06/2017 due 08/15/2027

*Long Term Rating* AA/Stable New

Copperas Cove comb tax and rev certs of oblig ser 2016 dtd 06/15/2016 due 08/15/2036

*Long Term Rating* AA/Stable Affirmed

Copperas Cove GO

*Long Term Rating* AA/Stable Affirmed

Copperas Cove GO (ASSURED GTY)

*Unenhanced Rating* AA(SPUR)/Stable Affirmed

Copperas Cove GO (BAM)

*Unenhanced Rating* AA(SPUR)/Stable Affirmed

#### **Copperas Cove GO**

*Unenhanced Rating* AA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings assigned its 'AA' rating to the City of Copperas Cove, Texas' series 2017 combination tax and revenue certificates of obligation and affirmed its 'AA' rating on the city's existing general obligation (GO) debt. The outlook is stable.

The bonds are secured by a continuing ad valorem tax levied annually, within the limits prescribed by law, on all taxable property within the city. The bonds are additionally secured by revenues of the city's waterworks and sewer system in an amount not to exceed \$1,000. We believe Copperas Cove possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax GO bonds. The maximum allowable ad valorem tax rate in the State of Texas is \$2.50 per \$100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to \$1.50. The city's levy is well below the maximum, at 79.79 cents, 31.91 cents of which is dedicated to debt service. Given the remaining flexibility under the state cap coupled with the city's rating level, we are rating the series 2017 bonds and parity debt outstanding under our GO limited-tax criteria and on par with our GO criteria. Proceeds of the 2017 bonds will be used to finance various capital improvement projects throughout the city.

The rating reflects our opinion of the following factors:

- Adequate economy, with projected per capita effective buying income at 96.2% and market value per capita of \$41,630, that is gaining advantage from a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating surplus 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 43% of operating expenditures;
- Very strong liquidity, with total government available cash at 90.6% of total governmental fund expenditures and 4.4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 20.4% of expenditures and net direct debt that is 265.5% of total governmental fund revenue; and
- Strong institutional framework score.

### **Adequate economy**

We consider Copperas Cove's economy adequate. The city, with an estimated population of 31,155, is located in Coryell and Lampasas counties. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 96.2% of the national level and per capita market value of \$41,630. Overall, the city's market value grew by 2.2% over the past year to \$1.3 billion in 2017. The weight-averaged unemployment rate of the counties was 4.5% in 2016.

Copperas Cove is located in central Texas, approximately 70 miles North of Austin and 160 miles southwest of Dallas, and is primarily a residential area. The city's economy is primarily service based, with some small-scale manufacturing, and is influenced by Fort Hood, the nation's largest military base. Fort Hood employs nearly 66,000 military and civilian personnel, many of which live in Copperas Cove. We believe that Fort Hood acts as a stabilizing institution for the city, but that its presence may also have a dampening effect on income and wealth levels in the area.

The city's total AV has grown approximately 8.0% in the past five fiscal years, or about 2.0% annually on average. Management budgeted for 1.5% growth in fiscal 2017, and expects continued growth at similar levels over the next two years due to several commercial developments that are currently underway.

### **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.

Management uses historical property tax revenue receipts, AV growth, sales tax trends, and personnel costs over the previous five fiscal years to calculate revenue and expenditure estimates. The city performs budget amendments, as needed, to address expenditure reclassifications and additional expenses; the board approves these amendments based on management's recommendation. The city now maintains a long-range financial outlook in its budget that includes three years of projected revenues and expenditures for all major funds.

Copperas Cove has a formal five-year capital improvement plan that is updated annually, which includes estimated project costs and funding sources. Management has a formal investment policy, in which it monitors investment results and compliance and reports the results to the city council at least quarterly. The city's comprehensive debt management policy includes types of debt that can be issued, limits on the amount of variable-rate debt and the use of swaps, and savings level expected to be achieved in order to execute a refunding. The formal general fund reserve policy's goal is to maintain, at least, 90 days' operations in reserve.

### **Strong budgetary performance**

Copperas Cove's budgetary performance is strong in our opinion. The city had slight operating surpluses of 0.9% of expenditures in the general fund and of 0.6% across all governmental funds in fiscal 2016.

We adjusted for recurring transfers into the general fund as well as one-time capital expenditures. After these adjustments, the city experienced positive operating results in the general fund of \$129,000 or 0.9% of general fund expenditures in fiscal 2016. We also adjusted for the receipt of state grants and spend-down of bond proceeds, and after these adjustments, Copperas Cove experienced positive operating results across all governmental funds of \$116,000 or 0.6% of total governmental funds expenditures in fiscal 2016.

The city has budgeted for a slight deficit in the general fund in fiscal 2017 of about \$435,000 or 2.7% of general fund expenditures. Based on revenues and expenditure performance fiscal-year-to-date, management expects to end fiscal 2017 with break-even results, and does not plan to spend fund balance over the next two years. Therefore, we expect the city's budgetary performance to remain strong.

### **Very strong budgetary flexibility**

Copperas Cove's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 43% of operating expenditures, or \$6.4 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 fiscal years, the city has consistently maintained a very strong available fund balance, which steadily increased from 38% of general fund expenditures in fiscal 2014 to 43% in fiscal 2016. Management currently has no plans to spend fund balance and anticipates maintaining reserves at the current level. The city's formal reserve policy requires fund balance in an amount sufficient to cover at least 90 days' operating expenses, which the city typically exceeds.

### **Very strong liquidity**

In our opinion, Copperas Cove's liquidity is very strong, with total government available cash at 90.6% of total governmental fund expenditures and 4.4x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

Copperas Cove has demonstrated strong access to external liquidity through its participation in the market within the past 20 years and issuance of mainly tax-backed bonds. Historically, it has had what we consider very strong cash balances; we do not believe its cash position will worsen over the next two fiscal years.

As of March 31, 2017, the city's investments were held in TexPool, which is a statewide local government investment pool, and money market accounts. The city's investments comply with state and city guidelines, and we do not consider them to be aggressive.

Copperas Cove issued privately placed bonds during 2015 in the amount of \$1.2 million. The terms of the private placement do not allow for acceleration and have a similar legal structure as the city's outstanding publicly held debt. Therefore, we do not consider this to be a contingent liability risk.

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

In our view, Copperas Cove's debt and contingent liability profile is very weak. Total governmental fund debt service is 20.4% of total governmental fund expenditures, and net direct debt is 265.5% of total governmental fund revenue.

The 2017 bonds are being issued to finance various capital projects throughout the city, including renovations to the library, park improvements, transportation projects, purchase of capital equipment, and the first of three phases of a water line relocation project. Subsequent to the issuance of the 2017 bonds, the city plans to issue additional debt to finance the second and third phase of the water line project over the next two years, in an estimated amount of \$13 million.

Copperas Cove's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.3% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

Copperas Cove provides pension benefits to its eligible employees through the state-administered Texas Municipal Retirement System (TMRS). Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the city's net pension liability was \$9.2 million as of Dec. 31, 2015. The plan was 83% funded based on its net position as a percent of the total pension liability.

The city provides certain health care benefits through a single-employer defined benefit OPEB plan; these costs, however, are minimal compared with overall expenditures (about \$48,000 in fiscal 2016) and are covered on a pay-as-you-go basis. It also participates in the cost-sharing multiple-employer defined benefit group term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund and contributes at a contractually required rate. For fiscal 2016, the contribution was about \$24,000.

### **Strong institutional framework**

The institutional framework score for Texas municipalities is strong.

## **Outlook**

The stable outlook reflects our opinion that Copperas Cove will continue to maintain strong budgetary performance and very strong reserves. Therefore, we do not expect to change the rating within the two-year outlook period.

### **Upside scenario**

If the city's economic indicators improve to levels we consider comparable with those of higher-rated peers, and its debt profile improves, we could raise the rating.

### **Downside scenario**

If the city's budgetary performance were to experience significant deterioration, leading to sustained decreases in reserves, or if the city's debt and pension obligations were to place financial pressure on the city, we could lower the rating.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 2016 Update Of Institutional Framework For U.S. Local Governments

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.globalcreditportal.com](http://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](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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