

RatingsDirect®

Summary:

Cedar Hill, Texas; General Obligation

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Credit Profile		
US\$11.7 mil comb tax and rev certs of oblig ser 2022 due 02/15/2042		
<i>Long Term Rating</i>	AA/Stable	New
US\$8.7 mil GO bnds ser 2022 due 02/15/2042		
<i>Long Term Rating</i>	AA/Stable	New
US\$1.25 mil tax nts ser 2022 due 02/15/2029		
<i>Long Term Rating</i>	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the City of Cedar Hill, Texas' series 2022 \$8.7 million general obligation bonds, \$11.7 million combination tax and revenue certificates of obligation, and \$1.25 million tax notes. At the same time, we affirmed our 'AA' rating on Cedar Hill's existing limited-tax obligations. The outlook on all ratings is stable.

The bonds, certificates, and notes are direct obligations of the city payable from a continuing, direct annual ad valorem tax levied by the city, within the limits prescribed by law, on all taxable property within the city. In addition, the certificates are payable from and secured by a limited pledge of the net revenues of the city's waterworks and sewer system. Given the limited nature of the revenue pledge, we rate the certificates based on the city's ad valorem pledge alone. Despite state statutory tax rate limitations, we do not differentiate between the limited-tax debt rating and the city's general creditworthiness, given that the ad valorem taxes are collected from the same tax base and there are no restrictions on what the limited tax can be used for, which supports our view of the city's overall ability and willingness to pay debt service. Proceeds from the issuance of obligations will help fund various infrastructure improvements and capital purchases throughout the city.

Credit overview

The 'AA' rating reflects the city's growing tax base that should keep expanding in the near term, history of stable financial performance and ample reserves supported by very strong fiscal management practices and policies, and elevated debt profile that is somewhat spurred by service demand growth. Cedar Hill benefits from its direct access to a larger metropolitan area, which should act to stabilize the economy in the long term. With available land for development and ongoing economic activity, solid annual market value growth should continue in the near term. The city's debt metrics and need for future borrowing will prevent any material change in the elevated debt profile over the medium term. Future credit reviews will focus on the city's ability to meet rising service demands while maintaining stable budgetary performance and solid reserves.

The rating also reflects our opinion of the city's:

- Expanding economy favorably located south of Dallas;

- Very strong management and strong institutional framework;
- Stable budgetary performance with very strong reserves and liquidity; and
- Elevated debt profile.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to the city's economy, management, financial measures, and debt and liability profile and have determined all are in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could raise the rating if the tax base increases and diversifies and if the elevated debt profile materially moderates.

Downside scenario

We could lower the rating if Cedar Hill's budgetary performance weakens materially, leading to sustained operating deficits and a resulting decrease in reserves below what we consider very strong and below the city's formal reserve goal.

Credit Opinion

Solid tax base growth in city favorably located in the DFW Metroplex

As the Dallas-Fort Worth metro area has grown, so has Cedar Hill. In the past five years, market value growth in the city has been solid and now exceeds \$4.5 billion. Market value continues to reflect single-family residential (66% of the total market value) and commercial property (16.5%) development. The top 10 taxpayers are diverse, make up 7.4% of the total tax base, and include apartment complexes, shopping centers, and a utility. Officials note stability at existing employers, record numbers of building permits for residential and commercial properties, and new retail and manufacturing space as key drivers in the local economy. Transportation corridor and interchange upgrades have also made properties attractive for new developments and Texas Health Resources recently purchased a 40-acre site in the city's commercial core to develop a full service hospital in the future. Given ongoing development and Cedar Hill's favorable location in the DFW Metroplex, we expect robust market value growth will continue in the near term, supporting the stable outlook.

Finances characterized by history of stable performance and reserves

Cedar Hill has a history of stable and positive financial performance, as well as maintenance of very strong reserves. For fiscal 2020, general fund revenues were primarily derived from taxes; stable sales tax and property tax collections aided the general fund operating surplus for the year. In 2020, property taxes made up about 65% of revenues while sales taxes made up a smaller (20%) portion. Unassigned fund balance in the general fund totaled \$11 million, or approximately 30% of annual general fund expenditures, which we consider very strong. Although the fiscal 2021 audit is not yet published, city officials anticipate another stable year and continued very strong reserves. Sales tax was the largest contributor to the positive performance, exceeding the budget by \$1.1 million. The general fund also received a

transfer in of \$846,000 from the grant fund for CARES Act funding to offset public safety overtime related to the COVID-19 pandemic. Intergovernmental revenue of \$603,000 was received from the Federal Emergency Management Agency to cover eligible costs from the February 2021 winter storm and public safety costs for building a local COVID vaccination site. Building permit revenues also surpassed the city's budget by \$405,933 (175%). In addition, overall operating expenditures fell below budget by \$640,000. For 2021, the general fund originally ended the year with a surplus of \$3,457,000. Excess fund balance of \$3,000,000 was transferred out to set aside money for future capital spending, leaving a \$457,000 surplus. Year to date in fiscal 2022, officials note general stability in budget to actual performance and do not have plans to draw down reserves. Along with stable revenue streams, the city benefits from American Rescue Plan Act federal funding. It received \$5.9 million in 2021 and expects to receive a similar amount in 2022. Officials plan to use most of the money to fund infrastructure projects but also indicate they will use a portion for cyber security and other technology. Given current performance expectations and limited-to-no exposure to contingent liabilities that could pose a material risk to liquidity, we do not expect Cedar Hill's liquidity will deteriorate from its very strong position in the near term.

Strong financial management practices and policies

Management uses five years of historical information to generate the revenue and expenditure assumptions used in the budget process, including data at the individual-source level provided by the city appraiser for revenue projections. Management provides city council with quarterly financial reports of budget-to-actual comparisons and investment updates on performance and holdings. The budget can be amended as needed. Cedar Hill also conducts formal long-term financial planning, with comprehensive five-year projections that are updated annually and reviewed by council during budget preparations.

Management's investment policy is in accordance with state guidelines. The city maintains a formal and comprehensive five-year capital improvement plan, with projects and funding sources identified. Cedar Hill has a formal debt management policy that is mostly qualitative, but includes quantitative targets for net debt per capita and net debt to assessed valuation. Its formal reserve policy calls for an available general fund balance of 25% of operational expenditures, which it has historically exceeded. The city also takes a holistic approach to cyber risk protections, including establishing multiple layers of security.

High debt profile in part caused by growth in service demand

Post sale, the city will have approximately \$105 million in limited-tax debt outstanding, including bonds, certificates, and tax notes. Cedar Hill has no variable-rate debt or swaps outstanding. It has two privately placed obligations from 2021; however, in our opinion, the obligations do not pose any near-term risk to the debt profile or near-term liquidity. The city plans to issue approximately \$23.5 million in additional debt in 2023. Debt plans are included in the capital improvement plan. Given the large amount of debt outstanding and plans for future borrowing, we expect the debt profile will remain elevated in the medium term.

Pension and OPEB liabilities:

We do not view pension and OPEB liabilities as an immediate credit risk. Cedar Hill participates in the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined-benefit pension plan administered by the state. The city's net pension liability was approximately \$11.6 million as of Dec. 31, 2019, and the

plan's funded ratio was 90%, assuming a 6.75% discount rate. Fiscal 2020 actual contributions fell modestly short of our minimum funding progress metric; however, they exceeded our static funding calculation. In addition to TMRS, the city provides pension benefits to its volunteer police reserves upon retirement. The plan became effective in 1993. As of Sept. 30, 2020, the city had no active members and seven retirees receiving benefits.

The city also provides OPEB for employees through a single-employer defined-benefit medical plan. Its contribution for retirees consists of pay-as-you-go claims exceeding the retiree contributions. Cedar Hill also participates in the TMRS supplemental death benefit fund, which has a modest associated liability.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Cedar Hill, Texas -- Key Credit Metrics

	Most recent		Historical information		
	2020	2019	2018		
Strong economy					
Projected per capita EBI % of U.S.	86				
Market value per capita (\$)	85,526				
Population	53,689	53,096	52,659		
County unemployment rate(%)	7.7				
Market value (\$000)	4,591,804	4,151,086	4,017,354	3,779,101	
Ten largest taxpayers % of taxable value	8.1				
Strong budgetary performance					
Operating fund result % of expenditures	2.4	3.2	0.4		
Total governmental fund result % of expenditures	3.1	(4.9)	3.6		
Very strong budgetary flexibility					
Available reserves % of operating expenditures	29.7	28.9	37.2		
Total available reserves (\$000)	11,088	10,074	12,585		
Very strong liquidity					
Total government cash % of governmental fund expenditures	159	132	98		
Total government cash % of governmental fund debt service	869	822	550		
Very strong management					
Financial Management Assessment	Strong				
Weak debt & long-term liabilities					
Debt service % of governmental fund expenditures	18.3	16.1	17.8		
Net direct debt % of governmental fund revenue	169				
Overall net debt % of market value	5.9				
Direct debt 10-year amortization (%)	66				
Required pension contribution % of governmental fund expenditures	5.8				
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
- 2021 Update Of Institutional Framework For U.S. Local Governments
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of March 9, 2022)

Cedar Hill GO

Long Term Rating

AA/Stable

Affirmed

Cedar Hill GO

Long Term Rating

AA/Stable

Affirmed

Cedar Hill GO

Long Term Rating

AA/Stable

Affirmed

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