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Cedar Hill (City of) TX

Update to credit analysis

Summary

Cedar Hill, TX's (Aa2) credit profile is supported by a growing and mostly residential tax base south of Dallas (A1 stable), and income and wealth levels that are near the national average. Financial performance is strong and the city has additional liquidity outside of the core operating funds, leading to robust available reserves. Credit challenges include an elevated debt burden that is above the median for the rating category, future debt plans and an elevated fixed cost burden.

Credit strengths

» Favorable location in the DFW metropolitan area that has experienced strong tax base growth

» Healthy financial performance with strong available reserves

Credit challenges

» Elevated debt burden with plans for further issuance

» Elevated fixed costs

Rating outlook

Moody's does not usually assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

» Material reduction in the debt burden and fixed costs

» Continued expansion and diversification of the tax base

» Growth in operating fund balance and liquidity

Factors that could lead to a downgrade

» Contraction of the local economy or tax base

» Trend of declining fund balance and/or liquidity

» Material increase in the debt burden or fixed costs

Key indicators

Exhibit 1
Cedar Hill (City of) TX

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value ($000)	$3,017,245	$3,230,561	$3,435,851	$3,779,101	$4,017,354
Population	50,917	48,149	48,704	48,560	48,560
Full Value Per Capita	$59,258	$67,095	$70,546	$77,823	$82,730
Median Family Income (% of US Median)	114.2%	109.9%	108.9%	106.0%	106.0%
Finances					
Operating Revenue ($000)	$40,690	$40,942	$42,761	$45,255	$47,485
Fund Balance ($000)	$10,219	$9,845	$10,255	$11,935	$12,774
Cash Balance ($000)	$10,423	$9,231	$9,460	$11,769	$12,433
Fund Balance as a % of Revenues	25.1%	24.0%	24.0%	26.4%	26.9%
Cash Balance as a % of Revenues	25.6%	22.5%	22.1%	26.0%	26.2%
Debt/Pensions					
Net Direct Debt ($000)	$149,684	$73,670	$75,685	$73,390	$99,050
3-Year Average of Moody's ANPL ($000)	$47,348	$56,180	$58,825	$61,665	$68,523
Net Direct Debt / Full Value (%)	5.0%	2.3%	2.2%	1.9%	2.5%
Net Direct Debt / Operating Revenues (x)	3.7x	1.8x	1.8x	1.6x	2.1x
Moody's - ANPL (3-yr average) to Full Value (%)	1.6%	1.7%	1.7%	1.6%	1.7%
Moody's - ANPL (3-yr average) to Revenues (x)	1.2x	1.4x	1.4x	1.4x	1.4x

Finances include general and debt service funds
Sources: US Census Bureau, Cedar Hill (City of) TX's financial statements and Moody's Investors Service

Profile

The city of Cedar Hill is located approximately 20 miles south of Dallas (A1 stable) in both Dallas County (Aaa stable) and Ellis County (Aa1). The population is approximately 49,000.

Detailed credit considerations

Economy and tax base: rapidly growing residential tax base south of Dallas

Tax base growth will continue because of ongoing residential, commercial and industrial construction and the city's proximity to job centers in Dallas. Fiscal 2022 taxable values grew to $4.6 billion, up 10.6% year over year. Over the past five years assessed values have grown at an average annual rate of 7.3%. Management is projecting 5%-7% annual growth over the next five years.

The city is primarily a bedroom community with single family and multifamily residential accounting for approximately 72% of the tax base. Currently the city has about 580 single family homes under construction, as well about 1.4 million square feet of commercial space. City officials are expanding economic development projects, especially commercial and industrial/light manufacturing, that will continue to grow the tax base. As the city is only about 50-55% developed, the tax base has potential to continue growing at a rapid pace for many years. Over the next five years, management anticipates about 1,200 total single-family and multifamily units and more commercial expansion.

As of fiscal 2022, the top 10 taxpayers represent a modest 8.1% of AV with most being apartments and retail.

Financial operations and reserves: stable operating reserves enhanced by outside liquidity

Reserves will remain stable because of strong policies and conservative budgeting, as well as additional available funds outside of the core operating funds. As of audited fiscal 2020 (September 30 year-end), available general fund balance was $11.1 million or 28.9% of revenue. When including the debt service fund, available operating fund balance improved to $12.8 million or 26.9% of combined revenue. This is below the state and national Aa2 medians, but the city has material reserves outside of the operating fund, discussed below.

Fiscal 2021 (draft audit) was another strong year largely because of strong sales tax and building permit revenue, federal aid that covered some public safety expenses, as well as the usual conservative budgeting that the city employs. The general fund ended with a surplus of over $3 million, though most was transferred to various capital funds. The general fund posted a $457,000 surplus which increased available fund balance to $11.6 million or 26.9% of revenue. When including the debt service fund, 2021 available operating fund balance was to $13 million or 25.5% of combined revenue.

The city also has material financial resources outside of the operating fund that could be used for operations or debt service, if needed. Specifically, the city has $19.7 million in the Joe Pool Lake permanent fund (as of unaudited fiscal 2021). In April 2019, the city passed an ordinance restricting $15 million of this to produce perpetual earnings and the remainder ($4.7 million as of 2021) can be used for one time capital projects related to Joe Pool Lake. The $4.7 million is more accessible for general operations if needed, as it requires only a majority vote of the city council to access it. The $15 million is more restricted because it would take multiple council meetings, a ¾ vote, and a six month cooling off period from the first council meeting to draw on it.

The city has additional liquidity in various other capital funds that could be drawn upon if required. The street construction, building maintenance, drainage maintenance and downtown/city center funds have combined fund balances of $6.8 million as of the draft fiscal 2021 audit. When accounting for the $4.7 million of the Joe Pool Lake fund as well as these other four funds, the city has reserves equal to 54% of general fund revenue.

The city is eligible to receive $11.9 million in American Rescue Plan Act funds (half came in last year and the remaining half will come in this year). Though exact allocations for these funds have not been approved yet, the council is planning on using most of the money for infrastructure improvements, as well as new generators, public health, broadband and cybersecurity updates, and premium pay for essential workers.

Liquidity

Cash will remain healthy and in line with fund balance. At the end of fiscal 2020, the city had cash and cash equivalents of $12.4 million in the operating fund, representing 26.2% of operating revenue. Of this amount, $10.7 million is in the general fund (equal to 28% of general fund revenue). Fiscal 2021 cash totaled $10.8 million in the general fund and another $1.5 million in the debt service fund.

Debt and pensions: elevated debt burden with plans for additional issuance; manageable pension liability

The debt burden will likely remain elevated over next several years because of plans for further issuance to support the five-year capital improvement plan (CIP), but it will remain manageable because of continued tax base growth. Post-sale of the series 2022 general obligation bonds, certificates of obligation and tax notes, the direct debt burden will total 2.2% of fiscal 2022 AV, which is well above the national Aa2 median and slightly higher than the state Aa2 median.

The city maintains CIPs for general needs as well as the water and sewer system, and collectively the CIPs total $60.5 million for projects from 2023-2026. Some of these projects will be financed pay-go but most will require debt. Positively the city has a descending debt service schedule, allowing more debt to be layered in. The city expects tax base growth will allow the new debt to be financed without an increase to the debt service tax rate.

Legal security

The GOLT debt is payable from a direct and continuing annual ad valorem tax levied against all taxable property within the city within the limits prescribed by law.

Debt structure

All debt is fixed rate and amortizes over the long term. The 10 year principal payout rate is 66%.

Debt-related derivatives

The city is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

The city's pension liability will remain manageable. Cedar Hill participates in the Texas Municipal Retirement System (TMRS), an agent multiemployer defined benefit pension plan. The city's fiscal 2020 unfunded pension liability, as reported, was $10.5 million based on a 6.75% discount rate, net of enterprise support. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $81.2 million based on a discount rate of 3.2%. The three year average ANPL represents 144% of operating revenue and 1.8% of full value.

In fiscal 2020 the city's total pension contribution of $2.9 million, net of self-supporting contributions, was less than the Moody's calculated “tread water” level of about $3.2 million. The “tread water” indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions.

The city provides other post-employment benefits (OPEB) in the form of life insurance to employees. Contributions into the plan are made on a pay as you go basis. The Moody's adjusted net OPEB liability was $2.2 million as of fiscal 2020. At 5% of operating revenue, the liability is a minimal source of balance sheet leverage.

Total fixed costs including debt service, pension contributions and OPEB contributions were $12.7 million or an elevated 26.8% of operating revenue.

ESG considerations

Environmental

The local government sector generally has low exposure to environmental risks. According to data from Moody's ESG Solutions, the city has medium exposure to heat stress, water stress and wildfires, and low exposure to floods. The state has taken action to help mitigate water stress risk within its borders by issuing general obligation debt through the Texas Water Development Board (TWDB) since the 1950s to finance a variety of water conservation and supply projects. The risks are also mitigated by a history of state and federal disaster aid, which has provided substantial reimbursement to Texas local governments in the event of disasters.

Social

Social considerations are an important factor in the city's credit quality. Population grew 9% between 2010 and 2020. Income levels are slightly above average with the median family income equal to 112% and 106% of the state and national medians, respectively. The median age of 34 is on par with the state median and lower than the national median. The December 2021 unemployment rate was 5.4%, compared to the state and national rates of 4.3% and 3.7%, respectively. The labor force of about 27,900 has exceeded pre-pandemic levels.

Governance

The city operates under a council/manager form of government with a city council comprised of the mayor and six council members. The council members are elected for three year staggered terms. The city manager is the chief administrative officer for the city. The city demonstrates good governance by multiyear capital planning and financial planning. The city's management team is also notably forward-looking and fiscally prudent as shown by conservative budgeting, careful expense management and adherence to formal policies.

Texas Cities have an institutional framework score of “Aa,” which is strong. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Revenues are largely derived from property taxes which tend to be highly stable and predictable, sales taxes which are moderately stable and predictable and other fees. As a result unpredictable revenue fluctuations tend to be minor, or under 5% annually. Cities have a moderate ability to raise revenues because most cities are at the sales tax cap set by state statute. Additionally, property taxes are subject to a statutory cap of $25 per $1,000 of assessed values, with no more than $15 allocated for debt. Although most cities are well under the cap, cities can only increase their property tax revenues by 3.5% on existing property without voter approval on an annual basis; all increases above 3.5% must be approved by voters. Operating expenditures for cities tend to be highly stable and predictable with minor fluctuations under 5% annually. Cities also have a strong ability to reduce expenditures.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$4,591,804	Aa
Full Value Per Capita	$85,526	Aa
Median Family Income (% of US Median)	106.0%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	26.9%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	5.1%	A
Cash Balance as a % of Revenues	26.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	5.6%	A
Notching Factors:[2]		
Other Scorecard Adjustment Related to Finances: additional liquidity outside of operatinhg funds		Up
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.2%	A
Net Direct Debt / Operating Revenues (x)	2.2x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.5%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.4x	A
Notching Factors:[2]		
Unusually Strong or Weak Security Features		Up
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: US Census Bureau, Cedar Hill (City of) TX's financial statements and Moody's Investors Service

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