

May 3, 2013

City of Celina
142 North Ohio Drive
Celina, TX 75009
Attention: Mr. Jay Toutouchian, Director of Finance

Re: *City of Celina, Texas, Outstanding Tax and Waterworks and Sewer System Surplus Revenue
Certificates of Obligation, Series 2004*

Dear Mr. Toutouchian:

Standard & Poor's Ratings Services ("Ratings Services") has reviewed the rating on the above-listed obligations. Based on our review, we have raised the underlying rating (SPUR) from "A" to "A+" while affirming the stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

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Summary:

Celina, Texas; General Obligation

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Summary:

Celina, Texas; General Obligation

Credit Profile

Celina GO

Unenhanced Rating

A+(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) to 'A+' from 'A' on Celina, Texas' tax and waterworks and sewer system surplus revenue certificates of obligation, series 2004. The outlook is stable. The raised rating is based on our view of the city's historically strong financial performance and maintenance of very strong reserve levels.

The ratings reflect our view of the city's:

- Direct access to the deep Plano, Texas and northern Dallas MSA economic bases;
- Strong wealth levels and good income levels; and
- Very strong financial position.

These credit strengths are partly offset, in our view, by the city's:

- High overall net debt burden, and
- Elevated debt service carrying charges.

The certificates are secured by annual ad valorem taxes levied on all taxable properties, within the limits prescribed by law. The certificates are additionally secured by a subordinate lien on and pledge of net revenues from the city's waterworks and sewer system.

Celina, with a population of about 8,576, is located in northern Collin County, about 40 miles north of downtown Dallas. Many city residents commute into the Dallas metropolitan area for employment due to the limited local economy. Celina's tax base grew substantially from fiscal 2004 to fiscal 2009: Assessed valuation (AV) increased more than threefold to \$434 million during that time. Despite the national recession, development has continued in the city, albeit at a slower pace. With the exception of fiscal 2010, which saw an AV decline of 2%, AV has increased by a cumulative 7% to \$496.8 million in fiscal 2014. The leading 10 taxpayers are very diverse, in our opinion, and account for 8% of fiscal 2014 AV. Market value per capita, which we consider as an indicator of the relative wealth of the tax base, is strong, in our view, at \$57,929. In February 2013, Collin County's unemployment rate was 5.7%, which was lower than both Texas' (6.5%) and the nation's (8.1%) rates. Median household effective buying income is good, in our opinion, at 106% of the national average.

Celina's financial position has improved during the past few fiscal years and is currently very strong, in our opinion.

The city's officials have projected that fiscal 2013 will close with a small surplus of about \$24,531. The city closed fiscal 2012 with a surplus of \$642,000, which exceeded its budget projection of \$33,406. Officials attributed the better-than-anticipated result primarily to larger-than-budgeted revenues -- mainly permits and inspection fees, fines, and fire department and EMS revenues -- and lower-than-budgeted administration expenditures. Because of this surplus, Celina's available general fund balance for fiscal 2012 increased to \$1.7 million, or 42.3% of operational expenditures, which we consider very strong, from \$544,000, or 14% of operational expenditures in fiscal 2008, which we view as strong. Property taxes (58%), permits and inspection fees (8%), and sales tax (7%) accounted for most of the fiscal 2012 general fund revenues. The city's tax rate for fiscal 2013 is 64.5 cents per \$100 of AV and has remained unchanged since fiscal 2009. In our view, the tax rate is moderate compared with other regional tax rates.

Standard & Poor's deems Celina's financial management practices "standard" under its financial management assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Revenue and expenditure assumptions are based on historical data, and the city monitors revenue streams using forecasting models and economic indicators. City officials monitor the budget monthly and make adjustments as needed. The city has a comprehensive investment management policy, with investment reports going to the governing body quarterly, and the policy is reviewed annually. The city lacks policies in some areas, including revenue and expenditure projections, long-term financial and capital planning, and debt management. The city strives to maintain a general fund balance of 25% of operating expenditure, and was able to do so in fiscal 2012.

After accounting for self-supporting debt from utility systems, the city's overall net tax-supported debt burden is high, in our opinion, at 12.2% of market value and \$7,082 per capita. City officials attribute the high debt burden to overlapping entities, whose debt makes up about 81% of the overall net debt burden (most of which is attributable to Prosper Independent School District). The city's direct debt burden, net of system self-support, is just 2.3% of market value. The debt service carrying charge is elevated, in our view, at 16.6% of total governmental fund expenditures in fiscal 2012, partly because of the city's fast amortization of debt; approximately 69% of the principal is due to be retired during the next 10 years and 100% within 20 years. We understand that city management may issue \$5.17 million in general obligation bonds within the next 12 to 18 months to fund the construction of a fire station and a park.

Celina provides pension benefits through a nontraditional, joint contributory, hybrid-defined benefit plan: the Texas Municipal Retirement Plan. For 2012, the annual pension contribution was about \$92,000, or 1.4% of governmental expenditures. As of Dec. 31, 2011, the plan was fully funded. The city does not provide any other postemployment benefits.

Outlook

The stable outlook reflects our anticipation that city will maintain its very strong financial position within our two-year horizon. The outlook also reflects the likelihood of continued growth in Celina's property tax base because of the city's access to the Dallas MSA. We do not expect to raise the rating within the two-year outlook time frame because we anticipate that the city's overall debt burden will likely remain high given the city's and its overlapping jurisdictions' significant growth-related capital needs. We could lower the rating if Celina's financial position deteriorates

significantly or if its overall debt burden increases substantially.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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