

May 31, 2013

Jay Toutouchian
CELINA (CITY OF) TX
302 W. Walnut St
Celina, TX 75003

Dear Mr. Toutouchian :

We wish to inform you that on May 30, 2013, Moody's Investors Service assigned a rating of

- A1 to CELINA (CITY OF) TX, General Obligation Refunding Bonds, Series 2013
- A1 to CELINA (CITY OF) TX, Certificates of Obligation, Series 2013

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure of current financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's Rating Desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, James Hobbs at 214-979-6844.

Sincerely,



Toby Cook
VP-Senior Analyst/Manager

cc: Mr. James Sabonis
First Southwest Co
325 North Saint Paul Suite 800
Dallas, TX 75201

Moody's assigns A1 underlying rating to the City of Celina's (TX) \$4.3 million General Obligation Refunding Bonds, Series 2013 and \$5.1 million Certificates of Obligation, Series 2013

A1 rating affects \$23.8 million in outstanding parity debt

Moody's Investors Service has assigned an A1 underlying rating to the City of Celina's (TX) \$4.3 million General Obligation Refunding Bonds, Series 2013 and \$5.1 million Certificates of Obligation, Series 2013. Concurrently, Moody's affirms the A1 rating of \$14.3 million in outstanding parity debt. The city has an additional \$1.4 million in outstanding Series 2007 Bonds which are not rated by Moody's. Proceeds from the Refunding Bonds will refund the city's outstanding Series 2004 bonds for a projected net present value savings of 7.3% with no extension of the final maturity. Proceeds from the Certificates of Obligation will fund various projects throughout the city including improving and equipping fire-fighting facilities, acquisition of land, street improvements, parks improvements, and other projects.

SUMMARY RATINGS RATIONALE

The Bonds and Certificates are payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the city. The Certificates are further secured by a limited pledge (not to exceed \$1,000) of the net revenues from the operations of the city's waterworks and sewer system. The rating of A1 reflects stability in the city's moderately sized tax base which continues to experience development, stable financial performance with maintained healthy reserves, and an above average debt burden that is supported from the city's water and sewer system.

STRENGTHS

- * Continued growth in tax base
- * Stable financial performance and healthy reserves
- * Continued population growth

CHALLENGES

- * Above average debt burden

DETAILED CREDIT DISCUSSION

STABILITY IN TAX BASE REFLECTIVE OF DEVELOPMENT IN LOCAL ECONOMY

We anticipate the City of Celina's tax base to remain stable in the near-term given ongoing residential and modest commercial development in the local economy. The City of Celina is located 35 miles north of the City of Dallas (General Obligation rated Aa1/Stable outlook) and has a 2013 estimated population of 8,576. Historically the city has been characterized by rural ranch lands. Yet as northern transportation corridors have grown out of the City of Dallas, the City of Celina's population has grown similar to northern suburbs closer to the downtown area. The city's year-over-year taxable value growth has remained positive in four of the last five years with a five year average annual growth rate of 2.9%. The city's fiscal 2013 taxable value of \$482 million represents a 4.6% increase over fiscal 2012 values. The city's tax base is predominately comprised of single-family residential properties (47%) and Acreage - land only (38%). The city's top ten tax payers make up 8.3% of the city's total tax base and include several large retail chains, development companies, a utility, and a railroad. The city's resident wealth levels have historically remained below average, yet recent indices indicate an improvement since 2000 with population growth. The American Community Survey data from 2000 to 2010 indicate above average wealth levels, evidenced by a per capita income and median family income of 132% and 151% of national levels, respectively. The March 2013 unemployment rate for Collin County (5.7%) was below that of the state (6.3%) and nation (7.6%) for the same period. Officials report continued residential development occurring in and around the city. Several large real estate developers are building homes that range in size in multiple locations throughout the city. City officials also report modest commercial and retail development to service population growth is picking up. Preliminary data indicates roughly a 4% increase in taxable value for the city for fiscal 2014, which is in line with historic growth trends and development activity occurring within the city.

STABLE FINANCIAL PERFORMANCE AND RESERVE LEVELS

We anticipate the city's financial performance to remain stable in the near term given management's commitment to maintain healthy reserve levels. At fiscal year-end 2012 (September 30) the city's General Fund balance totaled \$1.69 million or a healthy 36.5% of General Fund revenues. This year-end balance reflects a \$642 thousand operating surplus in the General Fund. At fiscal year-end 2012 the General Fund cash and cash equivalent position was \$1.45 million. Fiscal 2012 General Fund revenues were primarily derived from property tax collections (57%) while sales tax collection, a more volatile revenue stream, only made up 7.3% of total General Fund revenues. The city currently levies a maintenance and operations tax of \$4.75 per \$1,000 of assessed valuation. Historically the city's major expenditures include fire and emergency services, the police department, and administration. The city was recently able to save on costs by consolidating a separate police and fire administrative position into one public safety position.

Officials report strong year-to-date financial performance in fiscal 2013 as it relates to the budget. The city's most recent quarterly budget review showed revenues and expenditures tracking close to budgeted figures. Officials do not anticipate any significant expenditures before year's end that would be above and beyond budgeted items. If current trends continue, officials project adding a modest \$50 thousand to fund balance at year-end.

ABOVE AVERAGE DEBT BURDEN SUPPORTED BY CITY'S WATER AND SEWER SYSTEM

We believe the city's above average debt burden, which is in part reflective of debt issuances related to growth, will remain above average given the below average payout of principal and expected continued growth in and around the city. Post-sale, the city will have \$25.3 million in outstanding parity debt. The city's direct debt burden of 3.5% as a percent of fiscal year 2013 full value is above average for similarly rated city's. The city's direct debt burden takes into consideration \$8.3 million of outstanding parity debt that is expected to be supported by the city's water and sewer system. The overlapping debt burden of the city is significantly high at 14.9%, and mainly reflective of overlapping debt issued by Celina Independent School District (General Obligation rated A1). Principal payout of the city's debt is below average with 59.4% of principal retired in ten years with all debt maturing in 2033. All of the city's debt is fixed rate and the city is not party to any derivative agreements. Although there are no immediate plans for additional borrowing, city officials do report that funding options for projects related to growth will continued to be examined on a routine basis.

WHAT COULD MAKE THE RATING GO UP

- * Significant growth and diversification in tax base coupled with improvement in socioeconomic indices
- * Trend of stable financial performance
- * Reduction in city's debt profile

WHAT COULD MAKE THE RATING GO DOWN

- * Contraction of assessed valuation
- * Weak financial performance leading to narrowing of reserves
- * Increase in the city's debt profile

KEY STATISTICS:

Fiscal 2013 Full Valuation: \$482.7 million

Fiscal 2013 Full Value per capita: \$63,317

Top Ten Taxpayers as a % of fiscal 2013 Full Value: 8.3%

Direct Debt Burden (calculating support from city's water and sewer system): 3.5%

Overall Debt Burden (calculating support from city's water and sewer system): 14.9%

Payout of Principal (10 years): 59.4%

FYE 2012 total General Fund balance: \$1.69 million (or 36.5% of General Fund revenues)

Post-sale parity debt outstanding: \$25.3 million