New Issue: Moody's assigns A1 to City of Celina's, TX, $5.56M Certificates of Obligation Series 2014

Global Credit Research - 28 Apr 2014

Moody's affirms A1 rating on $24.6 million in outstanding parity debt

CELINA (CITY OF) TX
Cities (including Towns, Villages and Townships)
TX

Moody's Rating

ISSUE		RATING
Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2014		A1
Sale Amount	$5,560,000	
Expected Sale Date	05/14/14	
Rating Description	General Obligation Limited Tax	

Moody's Outlook NOO

Opinion

NEW YORK, April 28, 2014 --Moody's Investors Service has assigned an A1 underlying rating to the City of Celina's (TX) $5.56 million Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2014. At the same time, Moody's affirms the A1 underlying rating on $24.6 million in outstanding parity debt which was previously issued by the city. Proceeds from the sale of Certificates will fund various street, equipment, parks, public safety, and water and sewer system improvements throughout the city.

SUMMARY RATING RATIONALE

The Certificates are secured by a combination of the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the city, as well as a limited pledge (not to exceed $1,000) of the Net Revenues from the operations of the city's waterworks and sewer system. The A1 rating reflects the city's moderately-sized yet growing tax base that is expected to expand over the near to medium term due to significant development of single-family residential properties in and around the area. The A1 rating also reflects sound fiscal management practices established and adhered to by the city, stable financial performance with healthy cash reserves, and an above average debt burden which is due in large part to significant growth.

STRENGTHS

* Anticipated near to medium term growth in taxable value

* Healthy financial position

* Sound fiscal management practices

* Strong socioeconomic indices

CHALLENGES

* Above average debt burden

DETAILED CREDIT DISCUSSION

GROWTH IN TAX BASE PROJECTED TO CONTINUE WITH SIGNIFICANT RESIDENIAL DEVELOPMENT IN THE NEAR TERM

The city is still characterized by the rural ranch lands that surround the towns modest center, yet city management reports significant growth in single-family residential properties is expected in the near-term. Residential building permits are at an all-time high. Significant planned residential developments include, Light Farms (350 lots planned by 2018), Green Meadows (350 lots by 2018), and Kirk Ranch (400 lots by 2018). Along with several other large residential developments, officials estimate there will be 6,917 lots available or occupied in the city through 2018, which equates to 22,687 new residents (calculating 3.28 residents per lot). The city is located in the northwest corner of Collin County (Aaa / Stable outlook), yet along two main transportation corridors that lead into Dallas, which are Preston Road and Dallas Parkway which extends from the Dallas North Tollway. Officials also report commercial development is occurring along the two main transportation arteries, and additional commercial growth and diversification is expected with continued population growth. Officials also report that due to ongoing development and home building in the city, the fiscal 2015 taxable value is expected to increase a solid 6% to 9% over the previous year. The American Community Survey data from 2000 to 2010 indicates an improvement in wealth levels for the city with rapid population growth, evidenced by a per capita income and median family income of 151% and 132% of national levels, respectively. We note the estimated socioeconomic data is well above average for similarly rated cities. The January 2014 unemployment rate for Collin County was below average at 5.2%, when compared to that of the state (5.8%) and the national average (7.0%) for the same time frame.

We project that the city's moderately-sized $509.2 million tax base will grow over the near to medium term given significant anticipated single-family residential development in and around the city as well as availability of land for growth. The City of Celina is located 40 miles north of downtown Dallas (GOLT rated Aa1 / Stable outlook) and only 20 to 25 miles north of employment centers of the City of Plano (Aaa / Stable outlook) and the City of Richardson (Aaa / Stable outlook). From 2000 to 2010 the City's population jumped a significant 224% to 6,028 from a modest 1,861. The current population estimate of 8,600, along with significant historic growth, reflects continued development of north and south transportation corridors out of Dallas, as well as available housing stock. The city's taxable value of $509.2 million for fiscal 2014 is predominately made up of single-family residential properties (48.8%) and acreage (Land only) (36.6%). Despite the downturn in the national economy, the city's five-year-average-annual growth in taxable value remains positive at 1.9%. The city's top ten taxpayers make up a modest 7.2% of the total tax base and include a grocery store, railroad, and Fini Enterprises Inc., a chemical manufacturing operation.

SOUND MANAGEMENT PRACTICES AND ADHERENCE TO FORMAL FINANCIAL POLICIES RESULTS IN STABLE FINANCIAL POSITION

We anticipate the city's financial position will remain healthy in the near-term. Historically stable financial performance for the city is the result of establishment of and adherence to formal financial policies. Management reports a formal fund balance policy of maintaining a healthy 25% of General Fund expenditures held in reserve, and the district's current reserve position is well above that policy. The city works with a third party to establish growth and demographic projections. The city also utilizes its capital improvement plan and other forecasting to manage current growth. The city's fiscal 2013 year-end (September 30) financial position ended strong with a total General Fund balance of $2.18 million (or a healthy 45.8% of General Fund revenues), which reflects a healthy operating surplus in the Fund of $401 thousand after transfers. The General Fund cash position was also healthy at fiscal year-end totaling $2.07 million. Over the last three years the city has bolstered its reserve position, which has been aided by an increase in sales tax collections as well as conservative budgeting. In fiscal 2013 the city's General Fund revenues were predominately derived from property taxes (48.8% of total General Fund revenues), Building permits (9.5%), and sales tax collections (8%). The city's General Fund also had a historic transfer in from the city's Water and Sewer Fund of $345 thousand. The city's current maintenance and operations (M&O) levy is $6.45 per $1,000 of assessed valuation, which is not anticipated to change in the near-term. City officials report year-to-date operations and financial performance remains strong. Recent monthly sales tax collections are hitting significant highs. Official do not anticipate any use of reserves in fiscal 2014 and due to positive budget variances, are anticipating adding $250 thousand to Fund balance at year's end.

ABOVE AVERAGE DEBT BURDEN AS CITY MANAGES GROWTH

We expect the city's debt burden to remain above average over the near term as the city manages continued growth. Post-sale, the city will have $30.2 million in outstanding limited tax debt. The city does not have any outstanding variable rate debt or swaps. The city direct debt burden is above average at 3.9%, which is calculated from the city's fiscal 2014 taxable value. The debt burden calculation also takes into consideration $10.1 million of support from the city's water and sewer system that pays for related projects. Payout of outstanding principal in 10 years is below average at 61.6% with all debt maturing in 2034. The city's overall debt burden is significantly high at 15.7%, which is reflective of debt issued by two rapidly growing school districts in Celina ISD (GO rated A1) and Prosper ISD (A1). Although no specific amounts or timelines are final to date, city officials do anticipate future debt issuances in the near-term as the city manages continued growth.

Budgetary pressure due to the city's participation in the Texas Municipal Retirement System (TMRS) is expected to remain minimal in the near-term. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is a modest $687 thousand. This liability is equal to 0.12x annual operating revenues, which is below average when compared to the 1.0 times ratio on average for local governments. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported contribution information, or the reported liability information of the statewide cost-sharing plans, but to improve comparability with other rated entities.

WHAT COULD MAKE THE RATING GO UP

* Continued growth and diversification of tax base

* Maintenance of healthy financial position

* Reduction in debt burden

WHAT COULD MAKE THE RATING GO DOWN

* Weak financial performance

* Contraction of taxable value

* Increase in debt profile

KEY STATISTICS

FY 2014 full valuation: $509.2 million

FY 2014 full value per capita: $59,212

2010 ACS Median Family Income: 132% of US

Operating Fund balance as a % of operating revenues: 46.5%

5 year dollar change in fund balance as a % of operating revenues: 25.6%

Cash balance as a % of operating revenues: 44.8%

5 year dollar change in cash balance as a % of Revenues: 29.7%

Institutional Framework: Aa

Operating history: 5 year average of operating revenues/operating expenditures: 1.04x

Net direct debt/full value: 3.90%

Net direct debt/operating revenues: 3.45x

3 year average of Moody's adjusted pension liability/full value: 0.14%

3 year average of Moody's adjusted net pension liability/operating revenues: 0.11x

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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