Moody's Investors Service

Global Credit Research
New Issue
15 FEB 2008

New Issue: **Southlake (City of) TX**

MOODY'S ASSIGNS Aa2 RATING TO THE CITY OF SOUTHLAKE'S (TX) $14.1M CERTIFICATES OF OBLIGATION, SERIES 2008

RATING AFFIRMATION AFFECTS $146 MILLION IN OUTSTANDING PARITY DEBT, INCLUDING THE CURRENT ISSUE

Municipality
TX

Moody's Rating

ISSUE	RATING
Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2008	Aa2

Sale Amount	$14,085,000
Expected Sale Date	02/17/08
Rating Description	Revenue Certificates of Obligation, Series 2008

Opinion

NEW YORK, Feb 15, 2008 -- Moody's Investors Service has assigned a Aa2 rating to the City of Southlake's (TX) issuance of $14,085,000 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2008. Concurrently, Moody's has affirmed the Aa2 rating on the city's approximately $132M in outstanding general obligation secured debt. Factors contributing to the rating assignment and affirmation include the city's favorable socioeconomic profile, continuously expanding tax base, and strong financial operations. Also considered was the city's higher but manageable debt position that improves when various revenue sources are considered as supporting retirement of property-tax secured debt. Proceeds from the sale of the certificates will be used for drainage and street improvements and extensions to the city's water and wastewater systems. Annual principal and interest payments are secured by the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the city.

ROBUST TAX BASE EXPANSION CONTINUES

The City of Southlake is located in Tarrant County (general obligation rating Aaa) approximately 5 miles northwest of DFW airport and directly south of Grapevine Lake. The City experienced rapid growth throughout the 1990s and into early 2000 as a result of vigorous high-end residential construction. The resulting high socioeconomic profile of the city is reflected in the median family income that is 272% of the Census 2000 national value and 297% of the State's. Home values in the city remain high with an average selling price of more than $600K during 2007. For the past five years, the tax base has continued to grow at a more moderate but still robust average annual growth rate of 8.7% reaching $4.8B in FY 2008. Values increased between FY 2007 and FY 2008 by approximately $742M. About half of this increase was due to new construction. City officials report that a majority of the new construction occurred in the commercial base. The city's comprehensive plan indicates population build out in 2025 of approximately 35,000 residents, a projected increase of 25% from the current population estimate of 26,314. The completion of roadway infrastructure within and through the city continues to make available property appealing. As a result, there are several large-scale office space, retail, and commercial developments planned for the near future. Moody's believes that ongoing and planned development will continue to add value to the tax roll. Additionally, Moody's notes that officials continue to display conservatism in the assumed 4% growth rates utilized for budgeting and capital planning purposes.

SURPLUSES CONTINUE TO INCREASE RESERVES

The city's financial position continues to be favorable. The city has posted nine consecutive general fund operating surpluses. At FYE 2006, the city's total general fund balance is $17.1 million (60% of general fund revenues) and an undesignated balance of $10.7 million (37.6% of revenues). The city council has adopted a policy of maintaining a general fund balance of at least 15% and an optimum of 25% of operating expenditures. The city recently began utilizing general fund balances in excess of 25% of operating expenditures to self-fund a portion of the city's capital needs. The city's capital improvement plan for FY 2008 includes approximately $30M of capital projects of which $16M will be self-funded. The current bond issue will fund the remaining amount. Moody's believes the city's conservative financial planning and commitment to maintaining sizable general fund reserves is a positive indication of credit quality consistent with a Aa2 rating level.

In fiscal 2006, operating revenues were primarily derived from property taxes (51%) and sales taxes (23.6%). However, the city has two additional sales tax levies, of 1/2% each, utilized to support public safety and park activities. Total sales tax collections have annually increased 10.9% on average over the past five years as retail offerings have increased significantly as a result of the Town Square and other similar developments, which are supported by the high socioeconomic conditions of its residents.

DEBT BURDEN REMAINS HIGH BUT MANAGEABLE DUE TO MULTIPLE PAYMENT SOURCES

After this issue, the city's direct debt as a percentage of FY 2008 full value remains high at 3.5%. However, when considering debt that has historically been supported by revenues from the water and sewer system and the city's tax increment financing zone, the direct debt ratio is reduced to a more manageable level of 1.9%. The city is overlapped by four school districts all of which contribute to the overlapping debt of 4.7%. The city has $9.88 million remaining in authorized general obligation debt from a May 1999 authorization but does not plan to issue this debt in the next three years. However, the city's capital improvement program includes the issuance of approximately $6M annually, with $3M to be self- supported by the city's water and sewer system. The city also plans to issue about $6 million of sales tax revenue debt in 2009. Principal payout is above average with a solid 63.5% of principal retired in ten years. With a moderate tax base growth anticipated over the medium term and an above average debt retirement schedule, Moody's believes the city's debt position will remain manageable as additional debt is added.

KEY STATISTICS:

2007 Estimated Population: 26,314

FY 2008 Full Valuation: $4.86 billion

FY 2008 Full Valuation per Capita: $189,517

Direct Debt Ratio: 3.5%; excluding self-supporting debt: 1.9%

Principal Payout in 10 years: 63.5%

FY 2006 General Fund Balance: $17.1 million (60% of general fund revenues)

Post-sale Outstanding Parity Debt: $147 million

Sales Tax Debt Outstanding: $23.8 million

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