

City of Pilot Point, Texas

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Credit Profile

US\$1.99 mil General Obligation Refunding Bonds, Series 2010 dated 08/15/2010, due 08/15/2019

Long Term Rating

A+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to Pilot Point, Texas' series 2010 general obligation (GO) refunding bonds. The outlook is stable.

The rating reflects our view of the city's:

- Very strong financial position,
- Good income levels, and
- Access to the deep and diverse economy of the Dallas MSA.

The preceding credit factors are offset in part by the city's moderately high overall net debt burden as a percent of market value, coupled with impending future capital needs.

The bonds are secured by the city's full faith and credit pledge. Bond proceeds will be used to refund a portion of the city's outstanding GO debt to achieve present value savings.

The City of Pilot Point encompasses approximately 34 square miles in Denton ('AAA' underlying rating, or SPUR) and Grayson ('A+' SPUR) counties, about 53 miles north of downtown Dallas ('AA+' SPUR). The City of Pilot Point is just minutes from the City of Denton, where both the University of North Texas and Texas Woman's University are located, providing additional economic stability. The city is served by Pilot Point Independent School District ('A+' issuer credit rating). Pilot Point's local economy is based largely in agriculture and ranching. Primary employers in the city include Pilot Point Independent School District (215 employees), Empire Fabrications (120), and Point Bank (70). Despite the fact that the city has not seen any major business closings or large layoffs, the city has reduced its staff to a reported bare minimum in order to cut costs. The unemployment rate for Denton County is relatively low at 7.6% as of June 2010, compared with the state's rate of 8.5% for

the same time. The local residential market has remained relatively stable in recent years, with minimal foreclosure activity, and the average home price has held steady at approximately \$118,000. With very few remaining vacant lots available within the city, officials reportedly hope to add lots to attract additional city development. Income levels for Pilot Point are good, in our view, with median household effective buying income at 109% and 107% of the state and nation, respectively.

Pilot Point's assessed value (AV) has increased by about 13% from fiscal 2007 to \$202.3 million in fiscal 2009. AV for fiscal 2010, however, declined by approximately 2.9% to about \$196.4 million, which city officials attribute to the effects of the economic downturn. The city's certified fiscal 2011 AV has increased to approximately \$187.9 million. There is no concentration in the tax base, with the 10 leading taxpayers accounting for about 9.9% of AV for fiscal 2010. Market value is adequate at \$38,921 per capita.

The city's financial position is very strong, in our view. Following two years of drawdowns on the city's general fund balance, the city ended fiscal 2009 with a surplus of approximately \$434,295, bringing the city's unreserved general fund balance to approximately \$550,000, or a very strong 19% of operational expenditures. City officials plan to build the city's unreserved general fund balance to 22% of operations by the end of fiscal 2011, and to ultimately reach the city's reserve policy of three months' operating expenses, or 25% of expenditures, by fiscal 2012. For fiscal 2010, the city anticipates an additional surplus in the general fund despite a shortfall in budgeted sales tax revenues. Sales tax revenues also declined by about 19% between fiscals 2008 and 2009. Despite the shortfall in fiscal 2010 sales tax revenues, the city reports that these revenues have shown signs of improvement over the past three months. City officials plan to adopt a balanced budget for fiscal 2011. The city currently levies a property tax rate of 64 cents per \$100 of AV for fiscal 2010.

Pilot Point's management practices are considered "standard" under Standard & Poor's Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Key practices include conservative budgeting, quarterly reports to the council regarding year-to-date revenues and expenditures, and a formal goal of maintaining three months' operating expenditures in reserve. Management lacks formalized policies in the areas of long-term financial planning, long-term capital planning, and debt management.

Including the current issuance, the city's overall net debt burden is moderately high, in our view, at about 7.3% of market value for fiscal 2010, or a moderate \$2,856 per capita. Debt service carrying charges for fiscal 2009 were 18% of expenditures. Amortization of the city's debt burden is rapid, with approximately 92% of the total debt burden retiring over the next 10 years, and all debt scheduled to retire by 2022. The city is in the process of identifying its future capital needs through the development of a capital improvement plan and may issue additional debt in the fall of 2010.

Outlook

The stable outlook reflects our expectation that city officials will remain committed to the maintenance of the city's healthy financial reserve levels. The outlook also reflects our opinion that the city will continue to benefit economically from its proximity to the Denton MSA.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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