Summary:

The Colony, Texas; General Obligation

Credit Profile		
US$14.31 mil go rfdg bnds ser 2014 dtd 04/01/2014 due 08/15/2026		
Long Term Rating	AA/Stable	New
The Colony GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Long Term Rating	AA/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA' from 'AA-' on The Colony, Texas' general obligation (GO) debt outstanding based on our local GO criteria released Sept. 12, 2013. At the same time, Standard & Poor's assigned its 'AA' long-term rating to the city's series 2014 GO refunding bonds. The outlook is stable.

The bonds constitute direct obligations of the city, payable from the levy and collection of an annual ad valorem tax, within the limits prescribed by law. Bond proceeds will be used to refund a portion of the city's outstanding debt for savings purposes.

The ratings reflect our assessment of the following factors for the city:

- Adequate economy, which benefits from participation in the broad and diverse economy of the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA);
- Very strong budgetary flexibility, with fiscal 2012 audited reserves at 34% of general fund expenditures;
- Strong budgetary performance;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management with strong financial policies; and
- Weak debt and contingent liabilities position.

Adequate economy

We consider The Colony's economy to be adequate, with access to the broad and diverse economy of the Dallas-Fort Worth-Arlington MSA. The Colony is a residential community located in Denton County, about 15 miles north of Dallas, which is easily accessible by the North Dallas Tollway, Interstate Highway 35E, and U.S. Highway 75 via State

Highway 121. The city has historically been primarily residential in nature; however, the continued expansion of the city's commercial and industrial sectors has allowed for some diversification. Construction is currently under way for the much-anticipated approximately 433-acre mixed-used development, the anchor of which will be Nebraska Furniture Mart, a home furnishings retailer owned by Berkshire Hathaway that will take up about 90 acres of the development. The project is estimated at $1.5 billion, and construction is slated for completion by 2015. The project will generate a projected 2,000 full-time employees at Nebraska Furniture Mart, 400 of whom are contractually required to be residents of The Colony. For the development as a whole, employment is expected to total 5,000 jobs. The city has offered Nebraska Furniture Mart a 40-year 100% property tax abatement, and the 433 acres are located within a tax increment reinvestment zone (TIRZ). Upon completion, Nebraska Furniture Mart is anticipated to generate about $600 million, and the entire development is anticipated to generate about $1 billion for the TIRZ each year. County unemployment for 2012 was 6.0%. The city has projected per capita effective buying income of 143% of the U.S. Per capita market value for the city is $51,608 for fiscal 2014. Assessed value has increased by an average annual rate of about 4% during the past three years to reach approximately $2.32 billion for fiscal 2014.

Very strong budget flexibility

In our opinion, the city's budgetary flexibility remains very strong, with reserves above 30% of expenditures for the past several years and no plans to significantly spend them down. The city anticipates reserves will increase in fiscal years 2013 and 2014. For audited fiscal 2012, available reserves were about $7.4 million, or 34% of expenditures.

Strong budgetary performance

The city's budgetary performance has been strong overall, in our view, with a surplus of 6.7% for the general fund in fiscal 2012 and a surplus of 28% for total governmental funds, after adjusting for certain recurring transfers. Over 50% of the city's revenues are from property tax collections. Unaudited results for fiscal 2013 indicate a surplus of about 3.8% in the general fund. For fiscal 2014 the city has budgeted for a drawdown on the general fund of about 6.8%; however, city officials anticipate ending the year with an additional surplus.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash as a percentage of total governmental fund expenditures at about 46% and as a percentage of debt service at above 200%. We believe the city has strong access to external liquidity. The city has issued bonds frequently during the past 15 years, primarily GO bonds.

Very strong management conditions

We view the city's management conditions as very strong, with strong financial practices. The city has a formally adopted investment policy, and it reports holdings and earnings quarterly. In addition, management makes monthly financial update reports to the city council, including year-to-date actual figures compared to budgeted numbers. The city council can amend the budget at any time. The city's formal policy is to maintain at least 60 days' operations in the general and water and sewer funds. While the city has not adopted a formal multiyear long-term financial plan, management performs internal multiyear budgetary forecasting, updated annually, for major funds. The city also has an annually updated five-year capital improvement plan with identified revenue sources. The city has a formally adopted debt management policy, which the council reviews annually.

Weak debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is weak, with total governmental fund debt service as a percentage of total governmental fund expenditures at about 20%, and with net direct debt as a percentage of total governmental fund revenue at about 118%. The city currently has no additional GO debt plans for the near term.

The city provides pension benefits for all of its eligible employees through the statewide Texas Municipal Retirement System, which is a nontraditional, joint contributory, hybrid defined benefit plan. As of the last actuarial report dated

Dec. 31, 2012, the city's pension was 87% funded. The city consistently pays 100% its annual required contribution, which totaled $2.09 million in fiscal 2012, equating to about 6% of total governmental fund expenditures. The city does not provide other postemployment benefits.

Strong Institutional Framework

We consider the Institutional Framework score for Texas cities as strong. See Institutional Framework score for Texas.

Outlook

The stable outlook reflects our expectation that city officials will continue to maintain the city's very strong budgetary flexibility and that the city's debt and liabilities position will likely remain weak in the near term. Given these expectations, we do not anticipate further changes to the ratings within the two-year outlook time frame.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of March 31, 2014)		
The Colony GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.