

February 20, 2018

City of Cedar Hill
285 Uptown Blvd
Bldg 100
Cedar Hill, TX 75104
Attention: Mr. Alan Dickerson, Director of Finance

Re: *US\$4,200,000 City of Cedar Hill, Texas, General Obligation Bonds, Series 2018, dated: Date of delivery, due: February 15, 2038*

US\$5,795,000 City of Cedar Hill, Texas, Combination Tax And Revenue Certificates Of Obligation, Series 2018, dated: Date of delivery, due: February 15, 2038

Dear Mr. Dickerson:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Please send hard copies to:
S&P Global Ratings
Public Finance Department
55 Water Street
New York, NY 10041-0003

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cc: *Ms. Susan Strnad*
Mr. W. Boyd London, Jr.

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RatingsDirect®

Summary:

Cedar Hill, Texas; General Obligation

Primary Credit Analyst:

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Summary:

Cedar Hill, Texas; General Obligation

Credit Profile		
US\$5.795 mil comb tax and rev certs of oblig ser 2018 due 02/15/2038		
<i>Long Term Rating</i>	AA/Stable	New
US\$4.2 mil GO bnds ser 2018 due 02/15/2038		
<i>Long Term Rating</i>	AA/Stable	New
Cedar Hill GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AA' long-term rating to the City of Cedar Hill, Texas' series 2018 general obligation (GO) bonds and combination tax and revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating on the city's GO debt outstanding. The outlook is stable.

Both 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 within the city. In addition, a surplus net revenue pledge of the city's waterworks and sewer system secure the series 2018 and previously issued certificates. Despite the additional revenue pledge, we rate the debt based on the city's GO pledge, which we view as the stronger pledge. Texas state law limits cities to a total property tax rate of \$2.50 per \$100 of assessed value (AV)--\$1.50 of which can be allocated for debt service. Cedar Hill's levy is well below the maximum at 69.87 cents, of which 18.6 cents is dedicated to debt service. Due to this revenue-raising flexibility, we do not apply notching based on the limited nature of the pledge. We believe the city possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax debt. Bond proceeds will finance street, library, and parks improvements, and certificate proceeds will pay for improvements to the city's hike-and-bike trails, as well as its water and wastewater system.

The rating reflects our opinion of the city's:

- Adequate economy, with access to a broad-and-diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 34% of operating expenditures;
- Very strong liquidity, with total government available cash at 113.4% of total governmental fund expenditures and 5.8x governmental debt service, and access to external liquidity that we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 19.5% of expenditures and net direct debt that is 147.8% of total governmental fund revenue, but rapid amortization, with 86.9% of debt scheduled

to be retired in 10 years; and

- Strong institutional framework score.

Adequate economy

We consider Cedar Hill's economy adequate. The city, with an estimated population of 50,917, is located in Dallas and Ellis counties in the Dallas-Fort Worth-Arlington, Texas MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 99.8% of the national level and per capita market value of \$58,852. Overall, the city's market value grew by 5.1% over the past year to \$3.0 billion in 2016. The weight-averaged unemployment rate of the counties was 4.0% in 2016.

Known as the "hill country" of the Dallas-Fort Worth metroplex, Cedar Hill is located approximately 15 miles southwest of downtown Dallas along U.S. Highway 67, where it boasts the highest elevation between the Red River and the Gulf of Mexico. The local economy is largely retail based, with growing presences in the health-care and manufacturing sectors. Primary employers in fiscal 2017 included Cedar Hill Independent School District (with 1,025 employees), Wal-Mart (436), the city itself (360), and JCPenny (336). We consider the tax base diverse, with the top 10 payers comprising only 8.3% of fiscal 2018 taxable AV. Taxable AV has demonstrated steady year-over-year growth since fiscal 2013, and management expects this to continue at a rate of 5.0% annually over the next two years.

Both residential and commercial development have contributed to healthy AV growth in recent years. Following a year of robust commercial development in 2017, which resulted in the addition of 161,000 square feet of commercial space, city officials anticipate residential and commercial development will remain strong, with an additional \$51 million of new construction expected in calendar year 2018. Developments underway include a new hotel and conference center, restaurants, office buildings, and multi-family housing complexes.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management uses five years of historical information to generate the revenue and expenditure assumptions used in the budget process, including data at the individual-source level provided by the city appraiser for revenue projections. Management provides city council with monthly financial reports of budget-to-actual comparisons and investment updates on performance and holdings. The budget can be amended as needed. The city also performs formal long-term financial planning, with comprehensive multi-year projections forecasting five years into the future. It provides annual updates for council to review during budget preparations.

Management's investment policy is in accordance with state guidelines. The city maintains a formal and comprehensive five-year capital improvement plan that identifies projects and funding sources. It also maintains a formal debt management policy with standard provisions, and recently hired a disclosure counsel to increase transparency for subsequent debt issuances. Its formal reserve policy calls for an available general fund balance of 25% of operational expenditures, to which it has historically adhered.

Strong budgetary performance

Cedar Hill's budgetary performance is strong in our opinion. The city had balanced operating results in the general

fund of 0.1% of expenditures, and surplus results across all governmental funds of 12.5% in fiscal 2016.

In assessing the city's budgetary performance, we adjusted for annually recurring transfers out of the general fund, and for expenditures toward one-time capital projects with the use of debt proceeds.

Cedar Hill has produced strong budgetary performance results in recent years, partially due to conservative budgeting practices whereby deficit budgets are adopted and year-end results often exceed expectations. In fiscal 2016, the city initially budgeted for a planned drawdown of \$45,000 in the general fund, but finished instead with a \$37,000 surplus after transfers. Property taxes comprised roughly 48% of general fund revenues throughout the year, with sales taxes (25%) and franchise taxes (11%) representing the next largest revenue sources. These revenue streams have remained stable in recent years, with property and sales taxes experiencing measured growth in each of the past three fiscal years. Management expects this strengthening to continue in tandem with ongoing development.

Management budgeted for another drawdown in fiscal 2017 (still under audit) corresponding with large planned transfers out of the general fund to bolster secondary reserve fund levels. Officials anticipate finishing the year with a \$627,000 drawdown in general fund balance. The fiscal 2018 budget projects balanced operations after transfers, with no significant budgetary pressures or issues identified that could adversely affect performance. Therefore, we expect Cedar Hill's budgetary performance to remain strong in the near term.

Very strong budgetary flexibility

Cedar Hill's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 34% of operating expenditures, or \$10.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes \$8.8 million (27.7% of expenditures) in the general fund and \$1.9 million (6.1% of expenditures) that is outside the general fund, but legally available for operations.

Cedar Hill has historically maintained very strong reserve levels, in our view, exceeding 33% of operating expenditures in the three most recent fiscal years and providing flexibility above its formal reserve policy of 25%. In our analysis of available funds, we included reserves held in the city's street construction, building maintenance, and drainage funds, which can be accessed as a contingency at the council's discretion. Despite fiscal 2017's planned drawdown in fund balance to strengthen secondary reserves, management reports no plans to materially spend reserves over the next two years, but rather anticipates building from current levels. In light of this and management's ability to budget conservatively and produce surpluses, we expect budgetary flexibility to remain very strong in the near term.

The city had a significant infusion of available funds in fiscal 2017 following the passage of the Federal Water Infrastructure Improvements for the Nation Act in December 2016, which allowed the city to pay down its long-standing liability in relation to Joe Pool Lake, of which the city owns 43.2% of water conservatory rights. Following a one-time disbursement of \$40.5 million to pay down its liability in full, \$18.5 million in previously committed funds remained. Officials indicate these funds are available at council's discretion--substantially bolstering available fund balance, in our view.

Very strong liquidity

In our opinion, Cedar Hill's liquidity is very strong, with total government available cash at 113.4% of total governmental fund expenditures and 5.8x governmental debt service in fiscal 2016. In our view, the city has strong access to external liquidity if necessary.

Cedar Hill's strong access to external liquidity is demonstrated by its numerous GO-backed issuances in the past three decades. It has historically maintained what we consider very strong cash balances, and given our expectation for the fiscal years 2017 and 2018, we don't believe its cash position will materially weaken in the near term. All of its investments comply with both Texas statutes and its formal internal policy, and are held in certificates of deposit, local government investment pools, municipal bonds, and agencies at the end of fiscal 2016--none of which we consider aggressive. In addition, the city has no exposure to contingent liabilities that could pose a material risk to liquidity. Therefore, we don't expect the city's liquidity position to deteriorate from its very strong position in the near term.

Weak debt and contingent liability profile

In our view, Cedar Hill's debt and contingent liability profile is weak. Total governmental fund debt service is 19.5% of total governmental fund expenditures, and net direct debt is 147.8% of total governmental fund revenue.

Approximately 86.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Following the series 2018 issuances, city officials are planning an additional \$31 million in debt over the next two years for a variety of capital needs. While officials report that approximately \$6.8 million of this amount will be self-supporting from water and sewer system revenues, we nevertheless expect the city's debt levels to remain elevated in the near term.

Cedar Hill's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.9% of total governmental fund expenditures in fiscal 2014, and the city made 100% of its annual required pension contribution.

The city participates in the Texas Municipal Retirement System (TMRS), a nontraditional, joint-contributory, hybrid-defined benefit plan administered by the state. Cedar Hill's required pension contribution is its actuarially determined contribution, which is calculated at the state level. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, the city's net pension liability (as of Dec. 31, 2015) was \$14.5 million. The TMRS plan maintained a funded level of 83.4%, calculated as the plan's fiduciary net position as a percent of the total pension liability. (For additional details on GASB Statement Nos. 67 and 68, see: "Incorporating GASB 67 And 68: Evaluating Pension#?#OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect.) The city also provides OPEB in the form of healthcare, which it funds on a pay-as-you-go basis, and contributed \$57,971 toward the plan in fiscal 2016. Group-term life insurance is also provided through the Supplemental Death Benefits Fund operated by TMRS, to which the city paid \$31,181 in fiscal 2016--equal to its annual required contribution.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our expectation that Cedar Hill will likely maintain its very strong reserves and liquidity, and that debt levels will remain elevated in accordance with future debt issuances for capital projects. We also anticipate the local economy will continue to benefit from its location in the Dallas-Fort Worth-Arlington MSA. We do not expect to change the rating over the two-year outlook period.

Upside scenario

We could raise the rating if the city reduces its debt to a level we consider adequate, or if economic expansion leads to improvement in wealth and income levels, compared to peers. In addition, we could raise the rating if the city sustains its available fund balance in excess of 75% operating expenditures following the infusion of funds resulting from the resolution of its Joe Pool Lake liability.

Downside scenario

We could lower the rating if the city's financial performance deteriorates, leading to sustained and significant drawdowns in reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

Ratings Detail (As Of February 20, 2018)

Cedar Hill GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Cedar Hill GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Cedar Hill GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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