

New Issue: MOODY'S ASSIGNS A1 UNDERLYING RATING TO THE CITY OF SAN BENITO'S (TX) \$1.52 MILLION GENERAL OBLIGATION REFUNDING BONDS, SERIES 2011 AND \$7.5 MILLION COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2011

Global Credit Research - 10 Aug 2011

A1 RATING AFFECTS \$34.7 MILLION IN OUTSTANDING PARITY DEBT INCLUSIVE OF THE CURRENT SALES

Municipality
TX

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, Series 2011	A1
Sale Amount	\$1,520,000
Expected Sale Date	08/15/11
Rating Description	General Obligation Refunding Bonds
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011	A1
Sale Amount	\$7,500,000
Expected Sale Date	08/15/11
Rating Description	General Obligation Limited Tax

Opinion

NEW YORK, Aug 10, 2011 -- Moody's Investors Service has assigned an A1 underlying rating to the City of San Benito's (TX) \$1.52 million General Obligation Refunding Bonds, Series 2011 and \$7.5 million Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011. Concurrently we have affirmed the A1 the rating of \$25.68 million in outstanding parity debt previously issued by the city. Proceeds from the Refunding Bonds will be used to refund certain maturities of the city's outstanding debt for a net present value savings with no extension of the final maturity. Proceeds from the sale of Certificates of Obligation will fund various projects throughout the city including water and wastewater system upgrades.

SUMMARY RATING RATIONALE

The Refunding Bonds are payable from a direct and continuing ad valorem tax, levied annually within the limits prescribed by law, on all taxable property located within the city. The Certificates are payable from a direct and continuing ad valorem tax levied, annually within the limits prescribed by law, on all taxable property located within the city and are further secured by a lien on and pledge of a limited amount of the net revenues derived from the operation of the city's combined waterworks and sewer system not to exceed \$1,000. The rating assignment of A1 reflects the city's medium sized and stable tax base with a weak socioeconomic profile, stable financial position with a healthy reserve position, and an average debt burden with plans for future issuance in the near term.

STRENGTHS

- * Stable financial position with healthy reserve levels
- * Stable medium sized tax base

CHALLENGES

- * Anticipated debt issuance related to sewer system updates
- * Weak socioeconomic profile

DETAILED CREDIT DISCUSSION

MEDIUM SIZED STABLE TAX BASE LOCATED ALONG TEXAS / MEXICO BORDER

We believe the city's medium sized tax base will continue to grow at modest levels in line with historical trends. The City of San Benito has historically been a bedroom community located along the Texas/Mexico border between the cities of Harlingen (General Obligation rated Aa3) and Brownsville (Aa3). The city's taxable value has experienced steady modest growth over the last five years reaching \$584.5 million in fiscal 2011. From 2006 to 2011 the city's taxable value has grown approximately 3.3% annually which includes more modest growth in fiscal 2011. The city's tax base is comprised of roughly 50% residential properties, 20% commercial properties, and 11.7% classified as Tangible Personal, Commercial and Industrial. City officials report that in addition to previously existing light manufacturing operations and retail stores, modest development continues in the city including the relocation of a regional headquarters for SpawGlass general contractors, relocation of a Texas Health Department building, as well as modest expansion of several apartment complexes and residential subdivisions. The city's top ten tax payers comprise 10.1% of the city's total base and include AEP Texas Central (Senior unsecured Baa2) and Wal-mart (Aa2). Preliminary numbers indicate that similar growth is expected in taxable value for fiscal 2012. Conservatively city officials are anticipating flat growth over the next four years. Moody's notes the socioeconomic profile of the city remains weak and well below state and national averages. Unemployment

in the city for May 2011 was 10.0% and above the state and national averages of 7.9% and 8.7% respectfully for the same time frame. Moody's believes significant growth and diversification in the city's tax base as well as improvement in the weak socioeconomic profile are certain influencing factors for a future rating upgrade.

STABLE FINANCIAL OPERATIONS AND HEALTHY FINANCIAL RESERVE POSITION ON A PERCENTAGE BASIS

We believe the stable financial operations of the city and the healthy reserve position on a percentage basis are certain credit positives and are incorporated into the current A1 rating. The city's financial position has remained stable in recent years. The general fund balance of the city at fiscal year-end 2010 was a modest \$2.08 million or a more healthy 21.2% of general fund revenues. Weaker receipts from the city's sales tax collections influenced modest operating deficits in the General Fund in fiscal 2009 and 2010. The city's fiscal 2010 General Fund revenues were derived from non-property taxes (38.2%), property taxes (33.6%), and approximately 14% from fines and fees. For fiscal 2011, city officials prudently budgeted for flat sales tax collections when compared to fiscal 2010, historically has budgeted 93% for current property tax collections, and reduced expenditures through various cuts by \$239 thousand as year to date collections of fines and fees are slightly below target. Year to date sales tax collections are trending 6.95% above target and city officials anticipate a modest operating surplus at year's end (September 30) of \$118 thousand. City officials have an informal target of maintaining 90 days of expenditures in reserve and report a desire to slowly build to that target over the next several years. The city's total combined M&O and I&S levy is \$6.88 per \$1,000 AV which is well below the state cap for cities of \$25.00 per \$1,000 AV. We anticipate that the city will continue to budget conservatively and maintain reserves at or above current levels which is reflected in the A1 rating. Future credit reviews will focus on the city's ability to manage General Fund expenditures and maintain healthy reserves. Use of reserves to offset possible future declines in revenue or capital projects that significantly erode the city's General Fund balance could negatively impact the rating.

MANAGEABLE DEBT PROFILE WITH PLANS FOR FUTURE ISSUANCE

The city's direct debt burden of approximately 2.2% as a percent of fiscal year 2011 full value is average which includes support of \$22.7 million by revenues generated from the city's water and sewer system. The overlapping debt burden of 16.1% is well above average and is attributable mainly to overlapping debt issued by San Benito Consolidated Independent School District (G.O. rated A2). Payout is average with 61.8% of principal amortized in the following ten years with all debt maturing in 2031. In the last 18 months, the Texas Commission on Environmental Quality (TCEQ) has cited the city for nine sewer spills. Proceeds from the sale of Series 2011 Certificates of Obligation will begin to address needed water and wastewater system upgrades. A TCEQ program that the city is following gives officials 10 years to correct sewer problems. Through the program, the city anticipates reviewing sewer infrastructure needs and anticipates issuing future debt to remedy the aging infrastructure. While near term issuance is expected, exact amounts and timing has yet to be determined. We believe the city's current debt position is manageable and is incorporated in the A2 rating. Future credit reviews will pay particular attention to additional debt issuances associated with water and sewer system rehabilitation and elevated debt burdens could place downward pressure on the rating.

WHAT COULD MAKE THE RATING GO UP

*Significant growth and diversification of the city's medium sized tax base

*Maintaining healthy reserve levels

*Improved socioeconomic profile

WHAT COULD MAKE THE RATING GO DOWN

*Decline in reserve position

*Contraction of the city's medium sized tax base

*Significant escalation in the city's debt burden

KEY STATISTICS

2010 Population estimate: 25,365

2011 Full valuation: \$584.5 million

2011 Full value per capita: \$24,103

Direct Debt Burden (including state aid): 2.2%

Overall Debt Burden (including state aid): 16.1%

Payout of Principal (10 years): 61.8%

2010 General Fund Balance: \$2.08 million (21.2% of General Fund revenues)

Post-sale parity debt outstanding: \$34.7 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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Analysts

James Hobbs
Analyst
Public Finance Group
Moody's Investors Service

Toby Cook
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



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