

Tax Supported  
New Issue

San Benito, Texas

Ratings

New Issue

Combination Tax and Limited Pledge  
Revenue Certificates of Obligation,  
Series 2007 .....A-

Outstanding Debt

General Obligation Bonds .....A-  
Certificates of Obligation.....A-

Rating Outlook .....Stable

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New Issue Details

\$8,350,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007, are scheduled to sell on July 31 via negotiation to a syndicate led by Southwest Securities.

**Security:** The series 2007 certificates are direct obligations of the city, payable from the levy and collection of a continuing ad valorem tax limited to \$2.50 per \$100 of assessed valuation on all taxable property within the city. The certificates are additionally secured by a lien on and pledge of a limited amount of the net revenues from the city's combined waterworks and sewer system.

**Purpose:** Certificate proceeds will be used for improvements to the city's waterworks and sewer system, parks, museums, cemetery, streets, and street lighting, plus payment of issuance costs.

■ Outlook

The 'A-' rating on San Benito's certificates reflects the sound financial performance of the city's general and combined water and sewer funds, steady property and sales tax growth, moderate debt levels, and strategic location along key transportation corridors. Credit considerations also include the city's dependence on economically sensitive sales tax receipts for operations, limited economy, and low wealth levels. Utility needs dominate capital demands. However, the city has received substantial governmental assistance, and the majority of these certificates are expected to be self-supporting.

■ Rating Considerations

The city is located on the southern tip of Texas in the Lower Rio Grande Valley between the cities of Harlingen and Brownsville. Population growth over the past few decades has been steady, and the population now stands at almost 30,000. The city's economy has historically been tied to Harlingen and Brownsville and has included a sizable agriculture and manufacturing component, although in recent years, the city's economy has experienced some growth in retail and service industries, as well as tourism. Typical of most Texas border communities, wealth levels in the city are substantially below state and national averages.

Including the current offering, direct debt levels are low to moderate at \$332 per capita and 1.9% of TAV, aided by enterprise and special revenue fund support for more than 70% of outstanding debt. Overall debt levels are similarly low to moderate at \$744 per capita and 4.3% of TAV after adjusting overlapping local school district debt for a sizable amount of state support. Principal amortization of all tax-supported debt, including the certificates, is average, with 53% of all debt retiring within 10 years. Proceeds for the current offering will be used to finance the final phase of the city's water and sewer improvements and expansion. Other projects are designed to aid the city's tourism component.

Financial results have been good, with the city meeting or near its formal policy of maintaining at least 45 days of general operating expenses. For fiscal 2006, the city's unreserved, undesignated general fund balance equaled almost 18.0% of expenditures, transfers out, and other uses. Sales tax receipts constitute the general fund's largest revenue source, with more than 40% in fiscal 2006. Operating performance for the city's water and sewer utility has likewise been favorable, and for fiscal 2006, debt service coverage on all combined revenue and self-supporting tax-backed debt was 1.4 times. Projections for fiscal 2007 point toward a solid increase in sales tax collections, along with an operating surplus for the general fund; the utility funds are also expected to experience positive operations for the year.

July 27, 2007

Debt Statistics

(\$000)

This Issue	8,350
Outstanding Debt	<u>25,640</u>
Direct Debt	<u>33,990</u>
Less: Self-Supporting Debt	<u>(24,180)</u>
Net Direct Debt	9,810
Overlapping Debt	<u>12,184</u>
Total Overall Debt	<u>21,994</u>
Debt Ratios	
Net Direct Debt per Capita (\$)*	332
As % of TAV**	1.9
Overall Debt per Capita (\$)*	744
As % of TAV**	4.3

\*Population: 29,554 (2006 estimate). \*\*TAV: \$507,829,000 (fiscal 2007).  
Note: Numbers may not add due to rounding.

Property Value and Sales and Use

Tax Trends

(\$000, Fiscal Years Ending Sept. 30)

Fiscal Year	TAV	% Change	1% Sales and Use Taxes*	% Change
2001	341,923	6.1	2,671	6.4
2002	352,581	3.1	2,839	6.3
2003	384,337	9.0	3,096	9.1
2004	402,178	4.6	3,369	8.8
2005	435,415	8.3	3,565	5.8
2006	473,947	8.8	3,950	10.8
2007	507,829	7.1	N.A.**	N.A.**
2008	547,723†	7.9	N.A.‡	N.A.‡

\*Collected on calendar year basis. \*\*Collections for the six months ended June 2007 were up 16% compared with the level for the same period in calendar 2006. †Preliminary. ‡Budgeted at 3% growth. N.A. – Not available.

■ Strengths

- Good financial performance.
- Modest debt levels.
- Growing property and sales tax base.
- Strategic location along key transportation corridors.

■ Risks

- Moderately high dependence on economically sensitive sales tax revenues for operations.
- Limited economy, but with prospects for growth.
- Low wealth levels and an above-average but declining unemployment rate.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended Sept. 30)

	2002	2003	2004	2005	2006
Revenues	6,146	6,814	7,061	7,815	8,960
Expenditures	7,019	6,704	7,495	7,517	8,327
Net Change	(873)	111	(434)	299	633
Transfers In and Other Sources	831	0	0	0	0
Transfers Out and Other Uses	0	0	0	(46)	(236)
Net Income/(Loss)	(42)	111	(434)	253	397
Total Fund Balance	1,553	1,664	1,230	1,483	1,881
As % of Expenditures, Transfers Out, and Other Uses	22.1	24.8	16.4	19.6	22.0
Unreserved, Undesignated Fund Balance	1,196	1,306	872	1,125	1,523
As % of Expenditures, Transfers Out, and Other Uses	17.0	19.5	11.6	14.9	17.8

Note: Numbers may not add due to rounding.