

San Benito, Texas

General Obligation Bonds New Issue Report

Ratings

New Issues

General Obligation Refunding Bonds,
Series 2011 A+

Combination Tax and Limited Pledge
Revenue Certificates of Obligation,
Series 2011 A+

Outstanding Debt

Combination Tax and Limited Pledge
Revenue Certificates of Obligation A+

Rating Outlook

Stable

New Issue Details

Sale Information: \$1,520,000 General Obligation Refunding Bonds, Series 2011, and \$7,615,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011, via negotiation on Aug. 15.

Security: An ad valorem tax levied on all taxable property within the city of San Benito, limited to \$2.50 per \$100 taxable assessed valuation (TAV). The certificates of obligation (COs) are additionally secured from a limited pledge of the net revenues of the city's waterworks and sewer system.

Purpose: Proceeds of the GOs will be used to refund certain outstanding COs for interest savings. Proceeds from the COs will be used for capital improvements to the city's enterprise systems.

Final Maturity: General Obligation Refunding Bonds, Series 2011 – Feb. 1, 2020; Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011 – Feb. 1, 2031.

Key Rating Drivers

Stable, Modest Financial Profile: Financial performance remains sound despite budgetary challenges from declines in operating revenues. The city has typically registered modest annual surpluses, and unreserved general fund balance remains adequate.

Improving Sales Tax Revenues: Budgetary pressure results from deterioration in sales tax revenues on which the city relies for operations, but year-to-date fiscal 2011 receipts have shown solid improvement.

Modest, Diversified Tax Base: The city's tax base has grown at a steady pace but remains limited in size. Diversity in the area economy has provided stability, and a relatively stable housing market, coupled with some continued commercial development, is expected to contribute to modest tax base growth in fiscal 2012.

Manageable Debt Burden: Due to substantial support from net utility revenues for debt service, the city's direct debt levels are very low while overall debt is just above average as a share of market value (MV). Amortization of tax-supported debt is above average.

Weak Socioeconomic Indicators: The city's low income levels, high poverty rate, and above-average unemployment rate are subpar but fairly typical of border communities in the Rio Grande Valley.

Related Research

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Fitch Rates San Benito, TXs GO Rfdg and COs 'A+'; Outlook Stable, Aug. 9, 2011

Fitch Affirms San Benito, Texas' GOs & COs at 'A-'; Outlook Stable, Nov. 20, 2009

Analysts

Blake Roberts
+1 512 215-3741
blake.roberts@fitchratings.com

Rebecca Meyer
+1 512 215-3733
rebecca.meyer@fitchratings.com

Rating History

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	8/9/11
A+	Revised	Stable	4/30/10
A-	Affirmed	Stable	11/20/09
A-	Affirmed	Stable	7/25/07
A-	Assigned	Stable	7/6/09

Credit Profile

The city is located in Cameron County at the southern tip of Texas in the Lower Rio Grande Valley, situated between the cities of Harlingen and Brownsville. With an estimated 2010 population of 24,250, population growth has been essentially flat over the past decade.

Economy

The city's economy is based on agriculture, retail/service industries, manufacturing, and tourism. Typical of most Texas border communities, wealth levels in the city are substantially below state and national levels. The city's unemployment rate, which has historically tracked slightly above state and national rates, ticked up to 10% in May 2011.

The city's TAV totaled a modest \$564 million in fiscal 2011 and exhibited steady growth over the past five fiscal years at an annual average of 3.6%. Although new development moderated with the economic slowdown, officials report that some commercial development activity has picked up and the city's housing market has remained fairly stable; as a result, 2% TAV growth is expected in fiscal 2012. The top 10 taxpayers comprise a moderate 10% of fiscal 2011 TAV, with AEP Texas Central (a public utility company) the largest payer at 2.6%.

General Fund Financial Summary

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

	2006	2007	2008	2009	2010
Revenue	8,959	9,520	10,030	8,890	8,926
Expenditures	8,326	9,144	9,855	10,202	9,972
General Fund Surplus	633	376	175	(1,312)	(1,046)
Transfers In/Other Sources	0	0	0	1,328	1,084
Transfers Out/Other Uses	236	0	0	0	78
Net Surplus/(Deficit)	397	376	175	16	(40)
Total Fund Balance	1,880	2,256	2,111	2,127	2,087
As % of Expenditures, Transfers Out, and Other Uses	22.0	24.7	21.4	20.8	20.8
Unreserved Fund Balance	1,522	1,899	2,111	2,127	2,087
As % of Expenditures, Transfers Out, and Other Uses	17.8	20.8	21.4	20.8	20.8
Unreserved, Undesignated Fund Balance	1,522	1,899	1,423	1,439	2,010
As % of Expenditures, Transfers Out, and Other Uses	17.8	20.8	14.4	14.1	20.0

Note: Numbers may not add due to rounding.

Finances

Financial performance has remained stable amid revenue declines, as evidenced by a trend of general fund surpluses and adequate general fund balances. Weakness in sales tax revenues, which comprise about one-third of operating revenues, and revenues derived from traffic across the Los Indios International Bridge applied some budgetary pressure in fiscal years 2009 and 2010, but were offset by stability in property tax receipts and cost-reduction measures in fiscal 2010. Nonetheless, in contrast to surpluses posted in previous years, audited fiscal 2010 results show a modest net deficit. The city's unreserved fund balance remained at \$2.1 million, or about 21% of expenditures, which is on par with prior year balances.

The city adopted a balanced budget for 2011, and while sales tax receipts are up 7% on a year-over-year basis through May 2011, a modest shortfall in other fee revenues prompted

Related Criteria

[Tax-Supported Rating Criteria, Aug. 16, 2010](#)

[U.S. Local Government Tax-Supported Rating Criteria, Oct. 8, 2010](#)

management to make additional spending adjustments. The net effect is expected to produce a \$118,000 surplus at fiscal year end. Management has also continued to budget conservatively for property tax receipts, with the assumed 93% collection rate below the 97% currently collected for fiscal 2011. An increase in the level of debt supported by utility revenues is expected for fiscal 2012, which will lower the city's debt service tax rate by about 3.5 cents per \$100 TAV. Officials plan to shift this levy to the operations and maintenance tax rate, with the increased operating revenue expected to generate more sizable annual surpluses and bolster the general fund balance over the next three to four years.

Debt

With nearly three-quarters of the city's outstanding debt covered by net enterprise and special revenues, direct debt levels are low; overall debt levels are still low on a per capita basis, but slightly above average at 5.1% of MV. Principal amortization of all tax-supported debt is above average, with 64% retired in 10 years. The current CO offering will be applied to capital improvements for the city's water and wastewater systems, with the entire balance expected to be supported by net system revenues.

The city contributes to two pension systems: the Texas Municipal Retirement System (TMRS) and a Firemen's Pension Fund (FPF). Fitch considers the city's funded position adequate for TMRS but weak for the FPF at only 48% funded as of Dec. 31, 2009. The city has made 100% of the annual required contribution over the last three fiscal years for both plans, and the combined unfunded actuarial accrued liability totaled a modest 0.6% of 2010 MV.

Water and sewer utility operations remain healthy, with net system revenues continuing to provide direct support for debt service. Construction of a new water treatment plant was completed in February 2009, and the second and final phase of a new wastewater treatment plant came on line in September 2009. The city received transition assistance from the North American Development Bank in connection with the new facilities, but this assistance ended in fiscal 2009. Consistent system rate increases have occurred, with further rate increases planned through fiscal 2014 in line with a recently completed external rate study.

The city is currently drafting a 10-year capital improvement plan, as required by the Texas Commission on Environmental Quality, to address regulatory infractions related to aging water and sewer infrastructure. While the plan is still being developed, officials have outlined a four-phase approach to implementation, with the first phase requiring about \$2.5 million of this CO issuance. Capital needs and new debt plans resultant from the second through fourth phases are presently undefined, but Fitch Ratings will continue to monitor the city's progress in implementing the capital plan and any new costs that would materially change the debt and/or financial profile of the city. Other general government capital needs are primarily for streets and

Debt Statistics

(\$000)	
This Issue – General Obligation Refunding Bonds	1,520
This Issue – Certificates of Obligation	7,615
Outstanding Direct Debt – Net of Refunding	26,470
Self-Supporting	(25,452)
Total Net Direct Debt	10,153
Overlapping Debt	21,801
Total Overall Debt	31,954

Debt Ratios

Direct Debt Per Capita ^a	419
As % of MV ^b	1.6
Overall Debt Per Capita ^a	1,318
As % of MV ^b	5.1

^aPopulation: 24,250 (2010). ^bMarket value: \$625,245,000 (2011).
Note: Numbers may not add due to rounding.

drainage, and officials do plan to issue between \$3 million–\$5 million in COs in the near term, which would modestly increase debt levels.

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