

## MOODY'S DOWNGRADES WESLACO (CITY OF) TX G.O. RATING TO Baa2 FROM Baa1

### RATING DOWNGRADE AFFECTS \$51.8 MILLION OF OUTSTANDING MOODY'S RATED DEBT

Moody's Investors Service has downgraded the City of Weslaco, TX to Baa2 from Baa1 affecting \$51.8 million in outstanding general obligation debt, ultimately secured by an ad valorem tax pledge on city-wide taxable property within the limits prescribed by law. The downgrade reflects the city's continued structural imbalance in financial operations that has led to a complete depletion of financial reserves to a General Fund balance of negative \$213,081 for fiscal 2008 down from a \$1.7 million General Fund balance at the close of fiscal 2006. The Baa2 rating additionally reflects that the current recovery plan is dependent on the outcome of contract negotiations for the city's Police and Fire departments. Officials report that these two departments account for 54% of the city's operating budget and that the Police and Fire Department employees are requesting 10% and 12% pay increases respectively. Any pay increase would be retroactive to the close of the last contract in September 2009. Moody's believes that an increase in wages could erode the currently projected surplus budget of \$400-500,000, which was projected to restore the General Fund balance to an estimated \$200,000.

Moody's anticipate new administration will continue to improve structural balances over the long-term. Officials report that a new city manager has been hired and is expected to begin work in December 2009. Additionally, the city hired a new finance director after the previous director resigned in March of 2009. City officials report that in an effort to correct the structural imbalance in the operating budget; eight patrol positions have been frozen for savings of \$500,000, five additional city positions have been eliminated for an annual savings of \$200,000. Officials report a more conservative approach to budgeting and possible further expenditure savings in staff and overtime as needed. Moody's believes that the reduction of expenditures, as well as increased sales tax revenue will begin to correct the city's structural imbalance in the short term. It is possible that these gains will be partially offset by the ongoing negotiations with police and fire employees.

### STRENGTHS

\*New Management (conservative budgeting approach, staff reduction savings)

\*Full Valuation has increased from \$1.13 billion in 2008 to \$1.242 billion in 2010 (9% increase)

\*Addition of commercial retail centers will further boost sales tax revenues

### CHALLENGES

\*Pending contract negotiations with police and fire departments call for considerable pay increases

\*Deficit spending in 2007 and 2008 decreased cash position to 2.8% of General Fund revenues and reduced General Fund balance to -\$213,000 (1% General Fund revenues)

\*Reliance on economically sensitive revenue stream (31.7% of 2008 General Fund revenues were generated by sales tax)

\*Elevated debt burden (3.2% Net Direct)

#### KEY STATISTICS

2010 Full Valuation: \$1.242 billion

2010 Full Value per Capita: \$37,249

1999 Per Capita Income (as a % of US and TX): \$11,235 (52% and 57.3%)

Payout of Principal (10 years): 51.4%

2008 General Fund Balance: -\$213,081

Net Direct Debt Burden: 3.2%

Long-Term GOLT Moody's rated Debt Outstanding: \$51.8 million

#### RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating Weslaco (city of), TX was Moody's "General Obligation Bonds Issued by U.S. Local Governments," published in October 2009 and available on [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on August 16, 2007 when Moody's downgraded the city of Weslaco's (TX) rating to Baa1 from A3.