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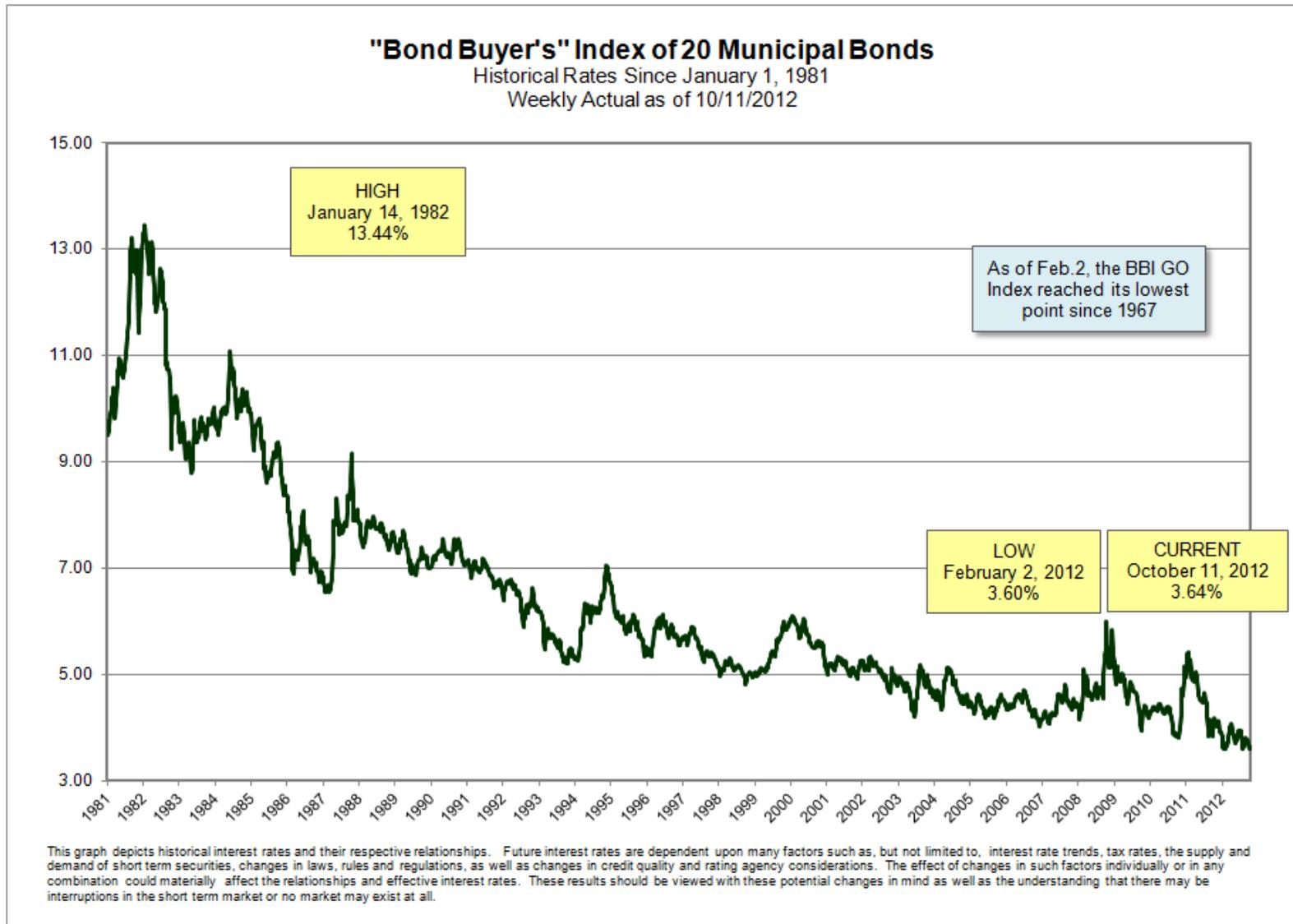


Market Update and Refunding Analysis

City of Weslaco, Texas

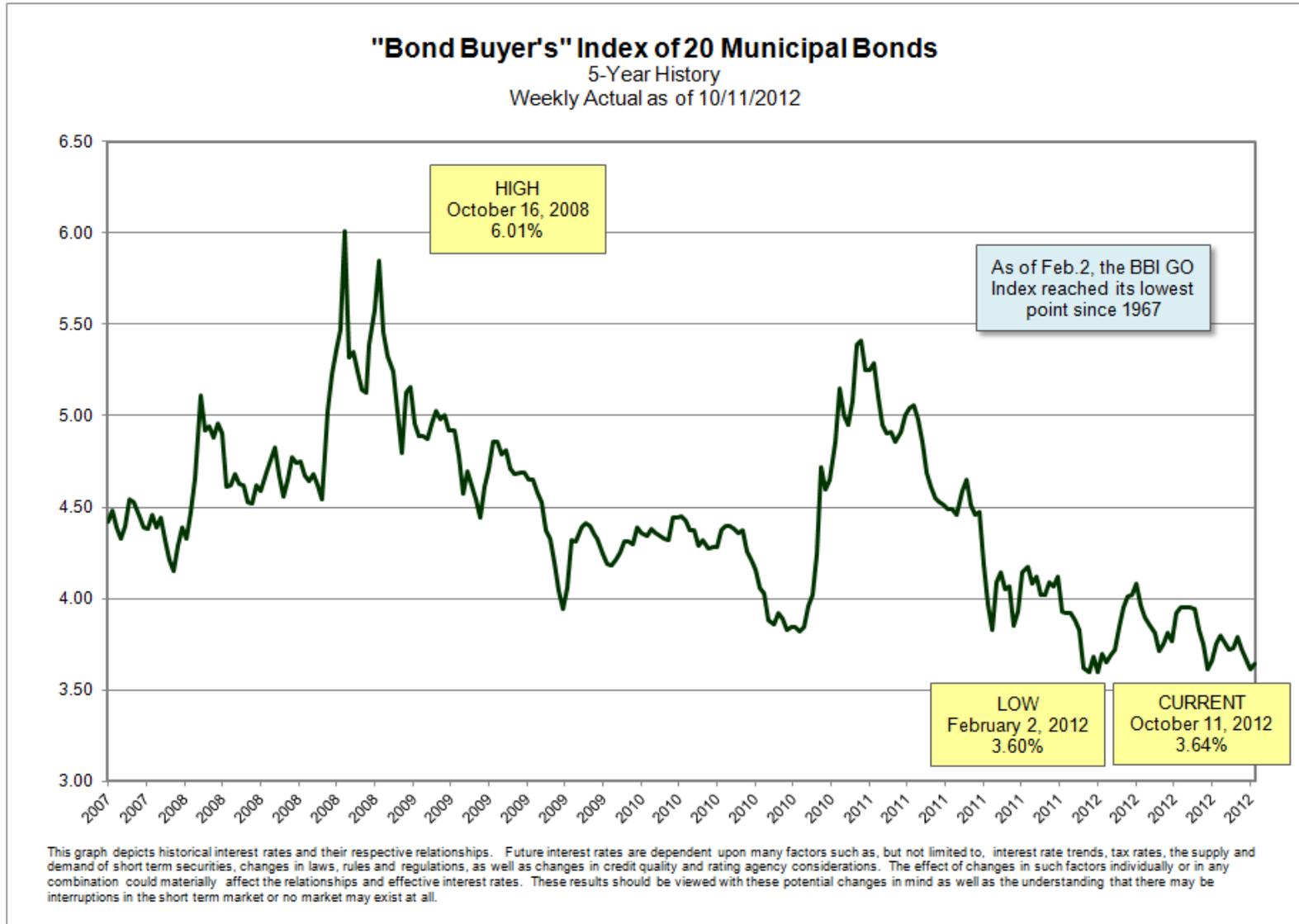
October 16, 2012

Bond Buyer's Index of 20 Municipal Bonds

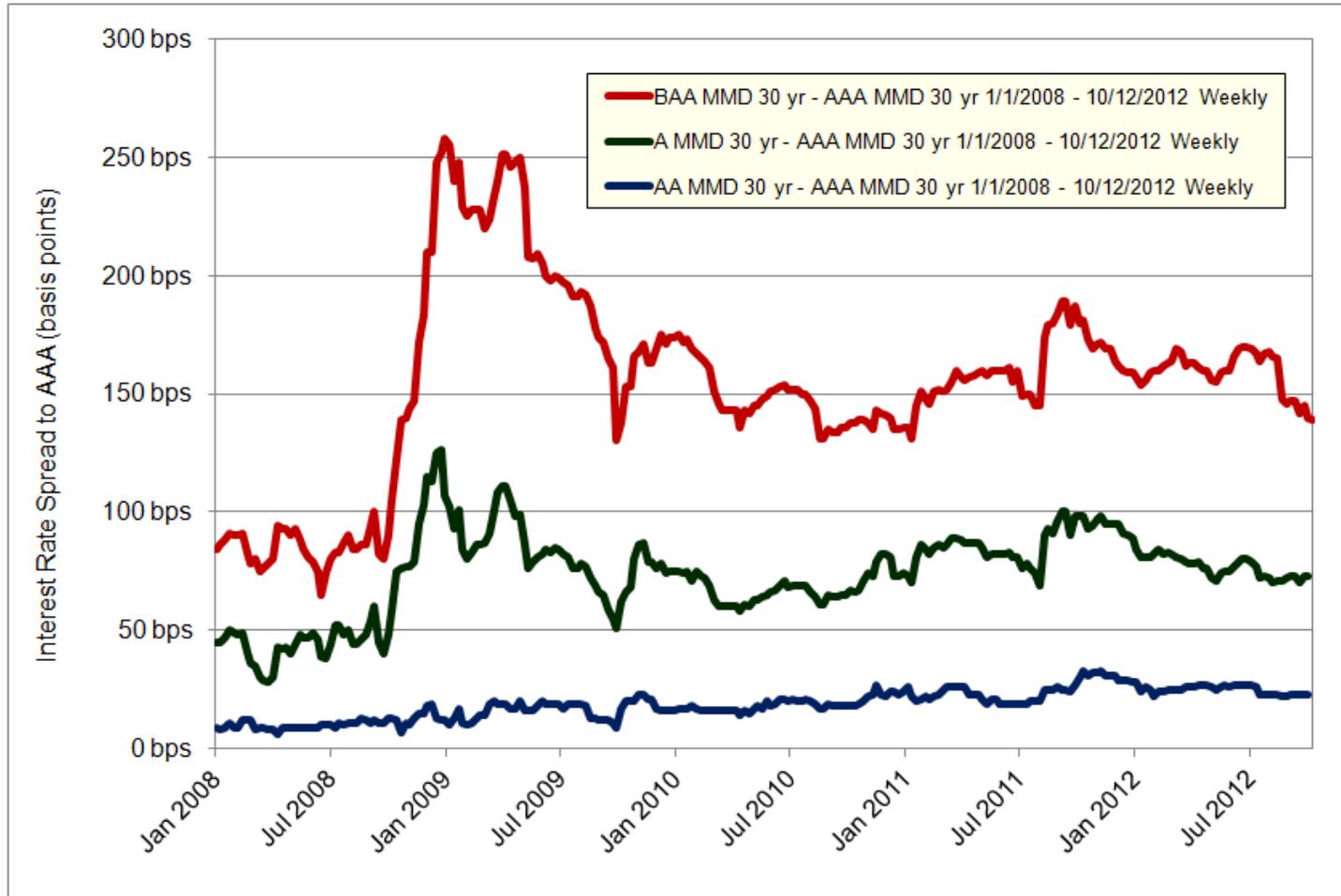


CITY OF WESLACO, TEXAS

Bond Buyer's Index of 20 Municipal Bonds



Historical Credit Rating Spreads



Proposed Refunding Opportunity

General Obligation Refunding Bonds, Series 2002

| | |
|---------------------------|-----------------|
| Original Principal Amount | \$7,860,000 |
| Callable Principal | \$655,000 |
| Callable Maturities | 2013 - 2014 |
| Coupons | 3.750% - 3.875% |
| Call Date | 2/15/2012 |
| Negative Arbitrage | \$604 |

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003

| | |
|---------------------------|-----------------|
| Original Principal Amount | \$14,080,000 |
| Callable Principal | \$11,865,000 |
| Callable Maturities | 2014 - 2023 |
| Coupons | 4.250% - 5.000% |
| Call Date | 2/15/2013 |
| Negative Arbitrage | \$47,847 |

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2007

| | |
|---------------------------|-----------------|
| Original Principal Amount | \$28,175,000 |
| Callable Principal | \$21,875,000 |
| Callable Maturities | 2018 - 2027 |
| Coupons | 4.700% - 5.250% |
| Call Date | 2/15/2017 |
| Negative Arbitrage | \$2,567,034 |

General Obligation Refunding Bonds, Series 2002

| Maturity | Interest Rate | Principal | Call Date |
|-----------|---------------|-------------------|-----------|
| 2/15/2013 | 3.750% | \$ 330,000 | 2/15/2012 |
| 2/15/2014 | 3.875% | 325,000 | 2/15/2012 |
| | | <u>\$ 655,000</u> | |

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003

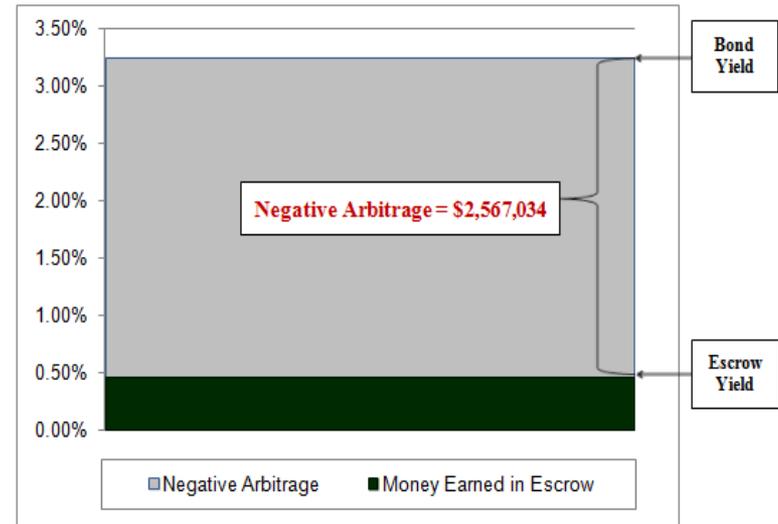
| Maturity | Interest Rate | Principal | Call Date |
|-----------|---------------|----------------------|-----------|
| 2/15/2014 | 4.250% | \$ 955,000 | 2/15/2013 |
| 2/15/2015 | 4.375% | 1,000,000 | 2/15/2013 |
| 2/15/2016 | 4.450% | 1,045,000 | 2/15/2013 |
| 2/15/2017 | 4.500% | 1,090,000 | 2/15/2013 |
| 2/15/2018 | 4.625% | 1,145,000 | 2/15/2013 |
| 2/15/2019 | 4.750% | 1,200,000 | 2/15/2013 |
| 2/15/2020 | 4.875% | 1,260,000 | 2/15/2013 |
| 2/15/2021 | 5.000% | 1,320,000 | 2/15/2013 |
| 2/15/2022 | 5.000% | 1,390,000 | 2/15/2013 |
| 2/15/2023 | 5.000% | 1,460,000 | 2/15/2013 |
| | | <u>\$ 11,865,000</u> | |

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2007

| Maturity | Interest Rate | Principal | Call Date |
|-----------|---------------|----------------------|-----------|
| 2/15/2018 | 5.250% | \$ 1,210,000 | 2/15/2017 |
| 2/15/2019 | 5.250% | 1,745,000 | 2/15/2017 |
| 2/15/2020 | 4.700% | 1,980,000 | 2/15/2017 |
| 2/15/2021 | 4.700% | 2,075,000 | 2/15/2017 |
| 2/15/2022 | 5.000% | 2,175,000 | 2/15/2017 |
| 2/15/2023 | 5.000% | 2,285,000 | 2/15/2017 |
| 2/15/2024 | 5.000% | 2,405,000 | 2/15/2017 |
| 2/15/2025 | 5.000% | 2,535,000 | 2/15/2017 |
| 2/15/2026 | 5.000% | 2,665,000 | 2/15/2017 |
| 2/15/2027 | 5.000% | 2,800,000 | 2/15/2017 |
| | | <u>\$ 21,875,000</u> | |

Negative Arbitrage

- Refunding Bonds in advance of the call date, an “advance refunding”, produces an “opportunity cost” otherwise known as “Negative Arbitrage”, particularly in a low interest rate environment.
- To the extent the escrow earns less than the arbitrage yield on the refunded bonds, the escrow must be over-funded with refunding bond proceeds in order to provide for the scheduled principal and interest payments on the refunded bonds.
- As the call date approaches on the refunded bonds, the City’s opportunity cost is minimized, but the refunding is subject to interest rate risk as time passes.
- The total negative arbitrage for the proposed General Obligation Refunding Bonds, Series 2012 is \$604 for Series 2002, \$47,847 for Series 2003 and \$2,567,034 for Series 2007.



Example: Refunds Series 2007, Level savings scenario shown for illustrative purposes.

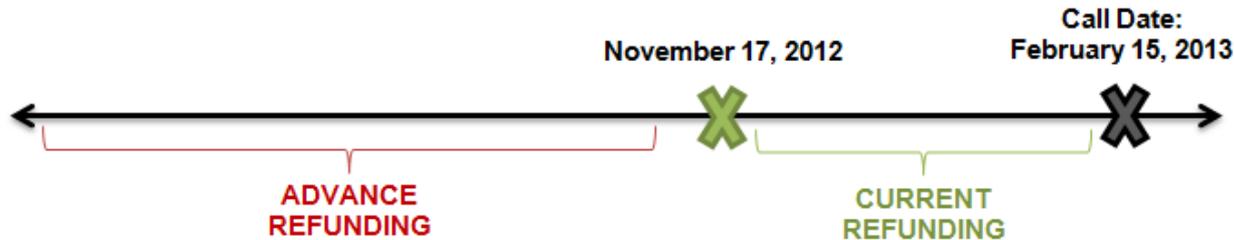
| Series Refunded | Value of Neg. Arbitrage | Call Date |
|-----------------|-------------------------|--------------------|
| Series 2002 | \$604 | Currently Callable |
| Series 2003 | \$47,847 | Currently Callable |
| Series 2007 | \$2,567,034 | 2/15/2017 |

Negative Arbitrage

- When we analyze the cost effectiveness of advance refunding, we calculate Negative Arbitrage as a percent of Net Present Value Savings. We believe that the Negative Arbitrage as a percent of Net Present Value Savings should be targeted to not exceed more than 25%.
- Negative Arbitrage as a percent of savings for each proposed refinancing opportunity is as follows:
 - *Series 2002 Negative Arbitrage \$604 as a % of Net PV Savings \$9,280 = 6.51%*
 - *Series 2003 Negative Arbitrage \$47,848 as a % of Net PV Savings \$1,037,040 = 4.61%*
 - *Series 2007 Negative Arbitrage \$2,567,034 as a % of Net PV Savings (\$1,069,382) = 240%*
- However, everyday between now and the call date, if interest rates stay the same, negative arbitrage shifts to savings for the City
 - If the City had advance refunded the 2003 Certificates on 2/15/2012, a year in advance of the call date and at current rates, the total savings would have been \$936,935 versus \$1,195,659 as of 10/15/2012.
- We believe the Negative Arbitrage and Negative Savings on the Series 2007 is too significant to consider moving forward with at this time
 - Given the current economic and interest rate forecast for the near future, we believe the City could realize more savings by waiting until closer to the call date to refund the Series 2007 Certificates
- With the Series 2002 and Series 2003, we recommend moving forward with the Series 2002 and Series 2003 refinancings

“Advance” Refunding versus “Current” Refunding

- An **advance** refunding occurs when the refunding issue is sold more than 90 days in advance of the date on which the outstanding bonds can be called (Series 2003 Certificates – February 15, 2003). If a refunding issue is sold with less than 90 days in advance of the call date, the refunding bond issue is considered a **current** refunding.



- Tax law allows a bond issue to be advance refunded only once:
 - Example: if the proposed Series 2012 Refunding Bonds were to advance refund the Series 2003 Certificates, a subsequent refunding bond issue would be prohibited from advance refunding the hypothetical Series 2012 Refunding Bonds.
- By waiting until there are less than 90 days until the February 15, 2013 call date, the City preserves the option to advance refund the proposed Series 2012 Refunding Bonds in the future.
- With an estimated bond issue closing date of December 20, 2012, the proposed Series 2013 Refunding Bonds **would be considered a current refunding and the City would preserve the option to advance refund these bonds in the future.**

(1) Assumed delivery date of December 20, 2012. Market rates as of October 15, 2012.

Refunding of Series 2002 Bonds – UTILITY SUPPORTED

PROJECTED SAVINGS

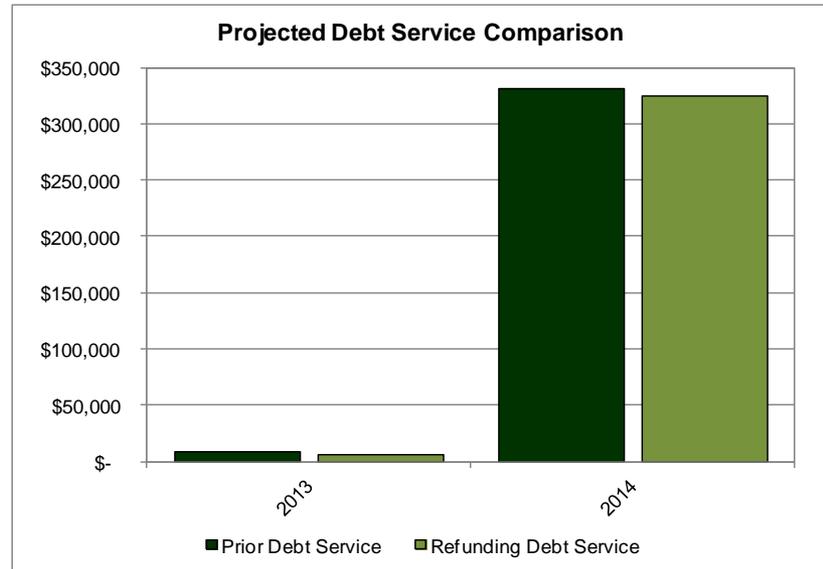
City of Weslaco, Texas
2012 General Obligation Refunding Bonds
Refunds Series 2002 UTILITY Supported

| Date | Prior Debt Service | Refunding Debt Service | Savings |
|-----------|--------------------|------------------------|----------|
| 8/31/2013 | \$ 8,781 | \$ 6,267 | \$ 2,515 |
| 8/31/2014 | 331,297 | 324,800 | 6,497 |
| | \$ 340,078 | \$ 331,067 | \$ 9,011 |

Projected: 2012 General Obligation Refunding Bonds⁽¹⁾

| | |
|---------------------------|-----------|
| Refunding Par Amount | \$320,000 |
| Gross Savings | \$9,011 |
| Average Annual Savings | \$4,506 |
| Net Present Value Savings | \$9,280 |
| Present Value Benefit (%) | 1.417% |
| True Interest Cost | 1.159% |
| Negative Arbitrage | \$604 |

Currently, refunding the 2002 Bonds produces minimal savings; however, FirstSouthwest will include the Bonds in the refunding and determine at the time of pricing if there are savings. If not, the Bonds will be excluded from the refunding. We will continue to monitor this opportunity.



(1) Assumed delivery date of December 20, 2012. Market rates as of October 15, 2012.

Refunding of Series 2003 Certificates – TAX SUPPORTED

PROJECTED SAVINGS

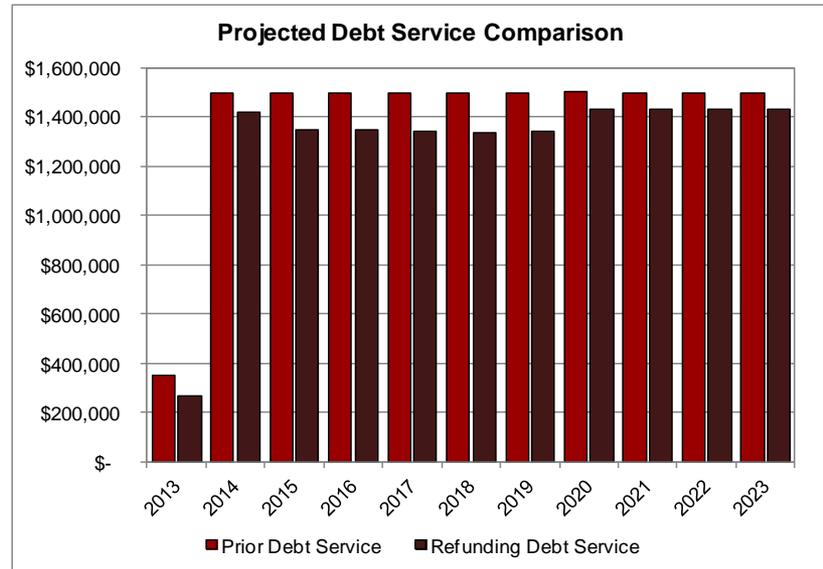
City of Weslaco, Texas
2012 General Obligation Refunding Bonds
Refunds Series 2003 TAX Supported

| Date | Prior Debt Service | Refunding Debt Service | Savings |
|-----------|----------------------|------------------------|---------------------|
| 8/31/2013 | \$ 349,771 | \$ 267,378 | \$ 82,393 |
| 8/31/2014 | 1,494,478 | 1,419,225 | 75,253 |
| 8/31/2015 | 1,497,309 | 1,344,150 | 153,159 |
| 8/31/2016 | 1,497,183 | 1,344,150 | 153,033 |
| 8/31/2017 | 1,494,406 | 1,343,100 | 151,306 |
| 8/31/2018 | 1,498,403 | 1,336,225 | 162,178 |
| 8/31/2019 | 1,498,425 | 1,343,375 | 155,050 |
| 8/31/2020 | 1,499,213 | 1,430,400 | 68,813 |
| 8/31/2021 | 1,495,500 | 1,431,275 | 64,225 |
| 8/31/2022 | 1,497,750 | 1,432,850 | 64,900 |
| 8/31/2023 | 1,496,500 | 1,431,150 | 65,350 |
| | <u>\$ 15,318,937</u> | <u>\$ 14,123,278</u> | <u>\$ 1,195,659</u> |

By structuring the tax supported debt service savings as above, the City is able to mitigate potential spikes in the Interest & Sinking Fund tax rate as shown on the next slide.

Projected: 2012 General Obligation Refunding Bonds⁽¹⁾

| | |
|---------------------------|--------------|
| Refunding Par Amount | \$11,615,000 |
| Gross Savings | \$1,195,659 |
| Average Annual Savings | \$108,696 |
| Net Present Value Savings | \$1,037,040 |
| Present Value Benefit (%) | 8.740% |
| True Interest Cost | 2.839% |
| Negative Arbitrage | \$47,848 |



(1) Assumed delivery date of December 20, 2012. Market rates as of October 15, 2012.

Estimated Impact to Interest & Sinking Fund Tax Rate

| FYE 9/30 | Assessed Valuation ⁽¹⁾ | Est. AV Growth ⁽²⁾ | Existing Tax Supported Debt Service | Est. I&S Tax Rate ⁽⁴⁾ | 2012 GO Ref Tax-Supported Debt Service (Savings) ⁽³⁾ | Projected Total D/S | Est. I&S Tax Rate After Refunding ⁽⁴⁾ | FYE 9/30 |
|----------|-----------------------------------|-------------------------------|-------------------------------------|----------------------------------|-----------------------------------------------------------------|---------------------|--------------------------------------------------|----------|
| 2012 | \$ 1,262,523,892 | | \$ 2,431,766 | \$ 0.19280 | | \$ 2,431,766 | \$ 0.19280 | 2012 |
| 2013 | 1,293,313,564 | 2.44% | 2,500,355 | 0.19931 | \$ (82,393) | 2,417,961 | 0.19274 | 2013 |
| 2014 | 1,293,313,564 | 0.00% | 2,490,494 | 0.19852 | (75,253) | 2,415,241 | 0.19252 | 2014 |
| 2015 | 1,293,313,564 | 0.00% | 2,569,746 | 0.20484 | (153,159) | 2,416,587 | 0.19263 | 2015 |
| 2016 | 1,293,313,564 | 0.00% | 2,568,938 | 0.20478 | (153,033) | 2,415,906 | 0.19258 | 2016 |
| 2017 | 1,293,313,564 | 0.00% | 2,568,428 | 0.20473 | (151,306) | 2,417,122 | 0.19267 | 2017 |
| 2018 | 1,293,313,564 | 0.00% | 2,576,819 | 0.20540 | (162,178) | 2,414,641 | 0.19248 | 2018 |
| 2019 | 1,293,313,564 | 0.00% | 2,573,425 | 0.20513 | (155,050) | 2,418,375 | 0.19277 | 2019 |
| 2020 | 1,293,313,564 | 0.00% | 2,041,855 | 0.16276 | (68,813) | 1,973,043 | 0.15728 | 2020 |
| 2021 | 1,293,313,564 | 0.00% | 2,035,165 | 0.16223 | (64,225) | 1,970,940 | 0.15711 | 2021 |
| 2022 | 1,293,313,564 | 0.00% | 2,038,000 | 0.16245 | (64,900) | 1,973,100 | 0.15728 | 2022 |
| 2023 | 1,293,313,564 | 0.00% | 2,035,750 | 0.16227 | (65,350) | 1,970,400 | 0.15706 | 2023 |
| 2024 | 1,293,313,564 | 0.00% | 542,125 | 0.04321 | | 542,125 | 0.04321 | 2024 |
| 2025 | 1,293,313,564 | 0.00% | 543,750 | 0.04334 | | 543,750 | 0.04334 | 2025 |
| 2026 | 1,293,313,564 | 0.00% | 544,125 | 0.04337 | | 544,125 | 0.04337 | 2026 |
| 2027 | 1,293,313,564 | 0.00% | 543,250 | 0.04330 | | 543,250 | 0.04330 | 2027 |
| | | | \$ 30,603,991 | | \$ (1,195,659) | \$ 29,408,332 | | |
| | | | - Average - | \$ 0.15240 | | | \$ 0.14645 | |
| | | | - Max - | \$ 0.20540 | | | \$ 0.19280 | |

(1) FY 2012 and FY 2013 assessed valuation and FY 2012 I&S tax rate provided by the Hidalgo County Appraisal District.

(2) Estimated assessed valuation growth provided by the City and the Hidalgo County Appraisal District.

(3) 12/20/2012 dated and delivery date with first interest payment in August 15, 2013 and first principal payment February 15, 2014. Tax-supported refunding savings shown for illustrative purposes only; estimated total PV savings of 8.465% of the refunded bonds. Insured market interest rates as of 10/15/2012 + additional 0.30%.

(4) Est. tax collections rate: 97.00%

Proposed Calendar of Events

| DATE | EVENT |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tuesday, October 16, 2012 | Regular meeting to brief the Commission on the refunding opportunity and commission to consider authorizing moving forward with a refunding transaction. |
| Friday, October 19, 2012 | Distribute first draft of the Preliminary Official Statement ("POS") to working group for comments. |
| Friday, November 02, 2012 | Comments on first draft of POS due from working group. |
| Tuesday, November 06, 2012 | Distribute second draft of POS to working group for comments. |
| | Send POS and related documents to Standard & Poor's Ratings Services ("S&P") and Assured Guaranty ("Assured"). |
| Week of November 12, 2012 | Rating conference call with S&P. |
| Wednesday, November 14, 2012 | Comments on second draft of POS due from working group. |
| Friday, November 16, 2012 | Distribute final draft of POS to working group for comments. |
| Monday, November 26, 2012 | Receive ratings. |
| | Comments due on final draft of POS due from working group. |
| Tuesday, November 27, 2012 | POS goes to i-Deal web site for posting. |
| Wednesday, November 28, 2012 | Receive insurance bid from Assured Guaranty. |
| Tuesday, December 04, 2012 | Pricing. |
| | Regular meeting to conduct sale of Bonds. Consider the adoption of the Ordinance Authorizing Issuance of Bonds and approving and authorizing the execution of the Bond Purchaser Agreement. |
| Thursday, December 20, 2012 | Closing Date; City delivers the Bonds to Underwriter and receives funds. |

| October | | | | | | |
|---------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 | 31 | | | |

| November | | | | | | |
|----------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | | | | 1 | 2 | 3 |
| 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | |

| December | | | | | | |
|----------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | | | | | | 1 |
| 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 |
| 23 | 24 | 25 | 26 | 27 | 28 | 29 |
| 30 | 31 | | | | | |

 = Key Dates  = Holidays

Recommendation

- FirstSouthwest regularly monitors all of the City's outstanding debt for refunding opportunities
- FirstSouthwest recommends moving forward with the bond issue – refunding Series 2003 and also Series 2002 if savings are positive at the time of pricing
- The City has maintained the maximum amount of debt service savings and structural flexibility by waiting until now to refund the Series 2003 Certificates
- By closing the proposed 2012 Refunding Bonds prior to calendar year end, the City preserves the ability to issue bonds under a “Bank Qualified” designation in calendar year 2013.
 - This tax designation allows the City to issue \$10,000,000 bonds or less in a calendar year at rates approximately 0.40% to 0.60% lower than *Non* Bank Qualified rates.
- Regardless of whether or not the City chooses to move forward with the proposed transaction, we will continue to monitor and provide regular updates to the refunding on behalf of the City