



Contacts

Anne Burger Entrekin | *Managing Director*

anne.entrekin@firstsw.com

70 Northeast Loop 410, Suite 710

San Antonio, Texas 78216

Direct: (210) 308-2200

Fax: (210) 349-7585

Cris Vela | *Senior Vice President*

cris.vela@firstsw.com

400 North McColl, Suite C

McAllen, Texas 78501

Direct: (956) 686-0991

Fax: (956) 618-4791

Sara Bedford | *Associate*

sara.bedford@firstsw.com

325 N. Saint Paul St., Suite 800

Dallas, Texas 75201

Direct: (214) 953-4031

Fax: (214) 953-4050

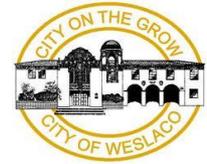


Limited Tax Refunding Bonds

Series 2012

City of Weslaco, Texas

Rating Agency Process



Pre-Bond Sales Process

- Prior to approving the issuance of Bonds, there are many steps undertaken by the Financing Team
 - Preliminary Structuring
 - Drafting of the Disclosure Document or Preliminary Official Statement
 - Coordination with Rating Agency
 - Coordination with Municipal Bond Insurance Company
 - Due Diligence Process
 - Pre-Marketing and Marketing of the Bonds
 - Pricing and Negotiation of Financing Terms

- In this post Dodd-Frank environment, each of the steps has become even more important to the debt issuance process

Rating Agency Process

- While the rating agencies review credits with each bond issue, they also review them in between debt issuance as circumstances warrant
- The City of Weslaco has seen several rating changes over the past couple of years:

| | MOODY'S | S&P |
|------|----------------------|------------------|
| 2011 | DOWNGRADE | Negative Outlook |
| 2010 | Rating Recalibration | DOWNGRADE |
| 2009 | DOWNGRADE | Negative Outlook |
| 2008 | | Negative Outlook |
| 2007 | DOWNGRADE | Negative Outlook |

- The bond rating is the primary factor in determining the interest rate on the bonds, since it is a reflection of the credit risk undertaken by the investors

Rating Agency Process

- The rating agencies in general consider the following categories in determining the rating for an issue:
 - Governance/Management
 - Economy
 - Financials
 - Debt

- While for many years the weight of each category was in the “black box”, Standard & Poor’s (“S&P”) lead the process in providing more transparency by revealing that Governance/Management was the highest weighted factor
 - Thought process is with strong Governance/Management, economic challenges and large capital improvement programs can be well managed

Rating Agency Process

- Rating Agency Strategy
 - With the debt issuance earlier this year, an in-person presentation was made by several of the City Commissioners and Key Management Staff
 - The primary purpose was to demonstrate:
 - Commitment from the Commission and Management to continue to make the structural changes in the City's operations reported by S&P as a credit weakness
 - Commitment from the Commission and Management to continue the improvement in the finances and fund balance of the City
 - Commitment from the Commission and Management to implement the necessary Capital Improvements in the Utility System with a comprehensive plan and financial responsibility
 - Due to the recent personal presentation and because this is a refinancing bond issue, we determined that a conference call meeting would be optimal

Rating Agency Process Results

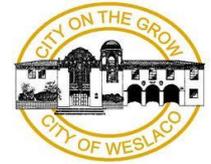
- S&P with this bond issue upgraded the City from “BBB+” to “A-”
 - In discussions with S&P, they indicated there had been significant discussion about an upgrade with our last bond issue
 - However, the committee believed it was important to see the 9/30/12 financials and 2013 budget before moving forward with an upgrade
 - The face-to-face meeting and discussions were the foundation for this rating action, in addition to the financial and operations changes
- Importance of Upgrade
 - S&P is an regulated, independent participant of the process, evaluating and comparing Weslaco not only to other cities in Texas, but nationally
 - Validation of the changes implemented over the past several years related to the operations and finances of the City
 - City Commission, City Management and entire City Staff are to be commended for their efforts in this significant accomplishment

Rating Impact on Interest and Insurance Premium

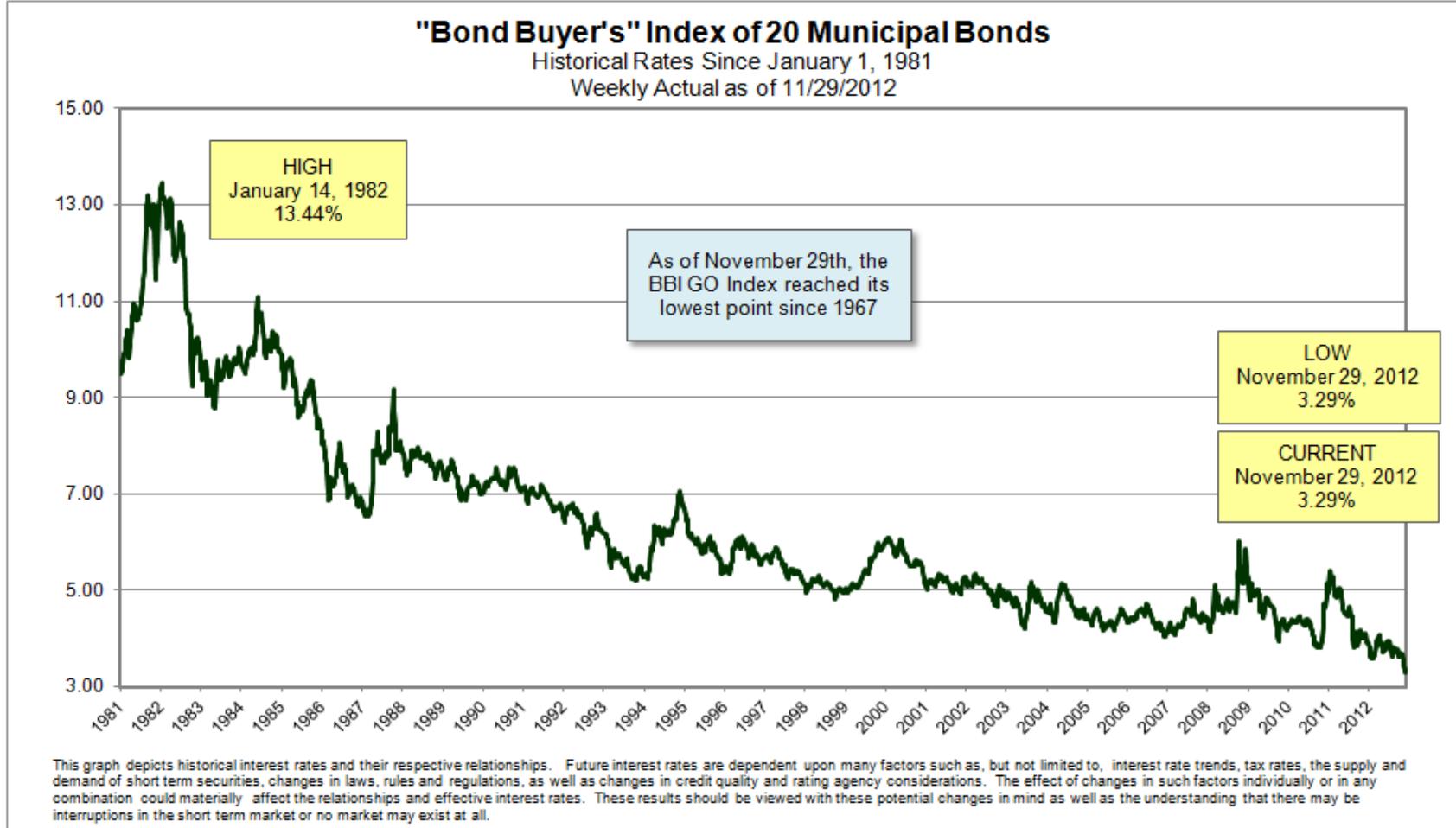
- Importance of Upgrade
 - The change in rating will result in a lower interest cost, not only on this refunding bond issue, but all bond issues going forward
 - The difference in moving from the “BBB” category into the “A” category is more significant than moving up within a rating category
 - Our desk estimates with municipal bond insurance, the interest rates will be 15 basis points or 0.15% lower
 - The change in rating has resulted in a lower municipal bond insurance premium, further reducing the costs of issuance
 - The transaction in January had a premium of 90 basis points
 - The refunding transaction has a premium of 55 basis points
 - Between these two factors, our desk estimates the savings on this transaction have been increased by approximately \$162,795, or 12%

- In their rating report, S&P included the following comments:
 - *The upgrade reflects our assessment of the City's improved financial performance, resulting in, what we view as, adequate reserves*
 - *Following years of structural imbalances under a previous administration, which placed significant pressure on Weslaco's finances, current management...outlined a plan to build reserves to \$5 million, or roughly 25% of expenditures by fiscal year end 2015*
 - *The City was previously overstaffed, which contributed to structural imbalances*
 - *We expect*
 - *Weslaco to continue its conservative budgetary practices while building its fund balance to its 25% reserve target*
 - *Weslaco's utility system fund, supported by planned rate increases, to continue to provide adequate coverage*
 - *Consistent positive financial performance and further fund balance improvement **could support our raising the rating further***

Market Update

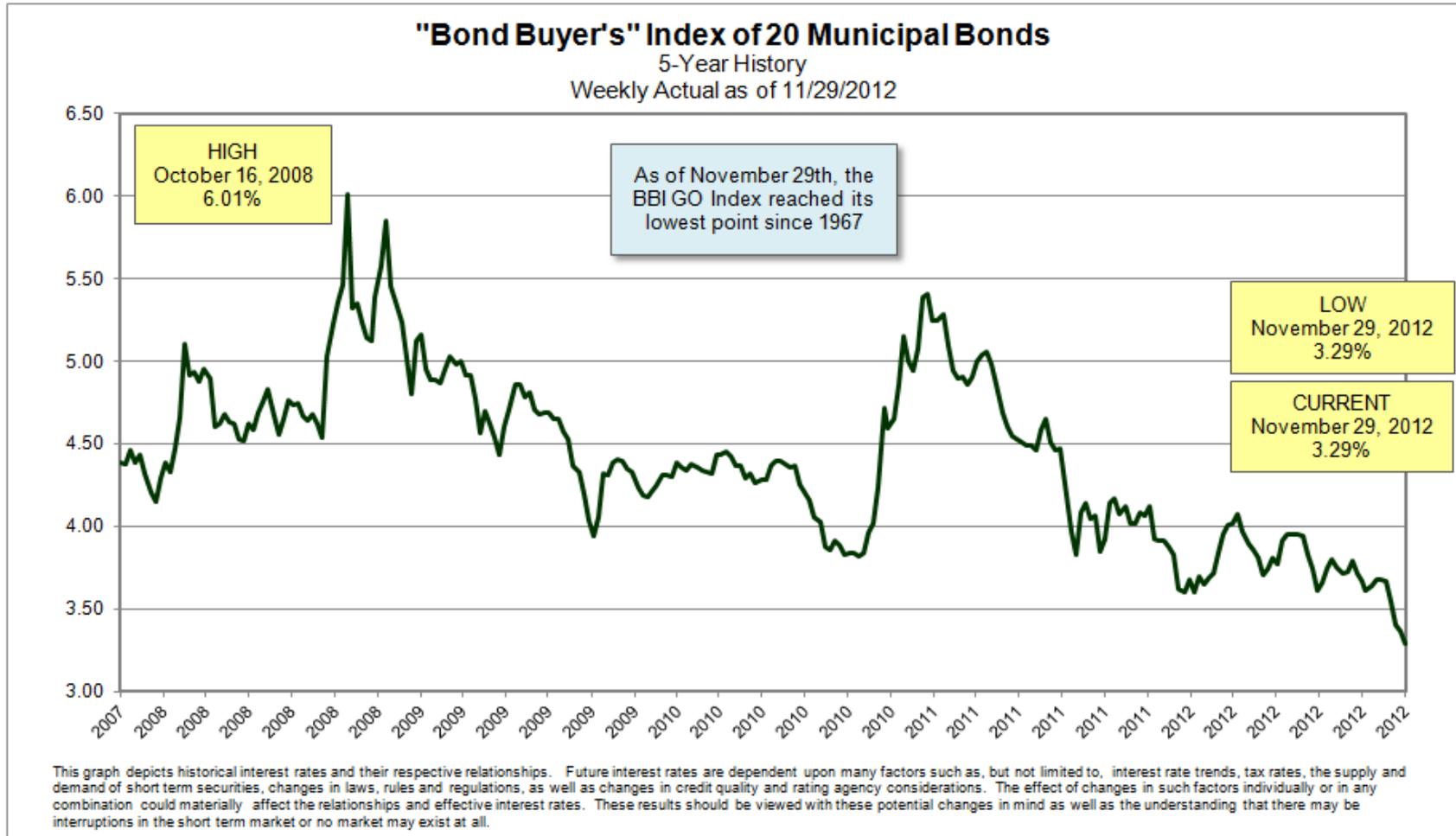


Bond Buyer's Index of 20 Municipal Bonds



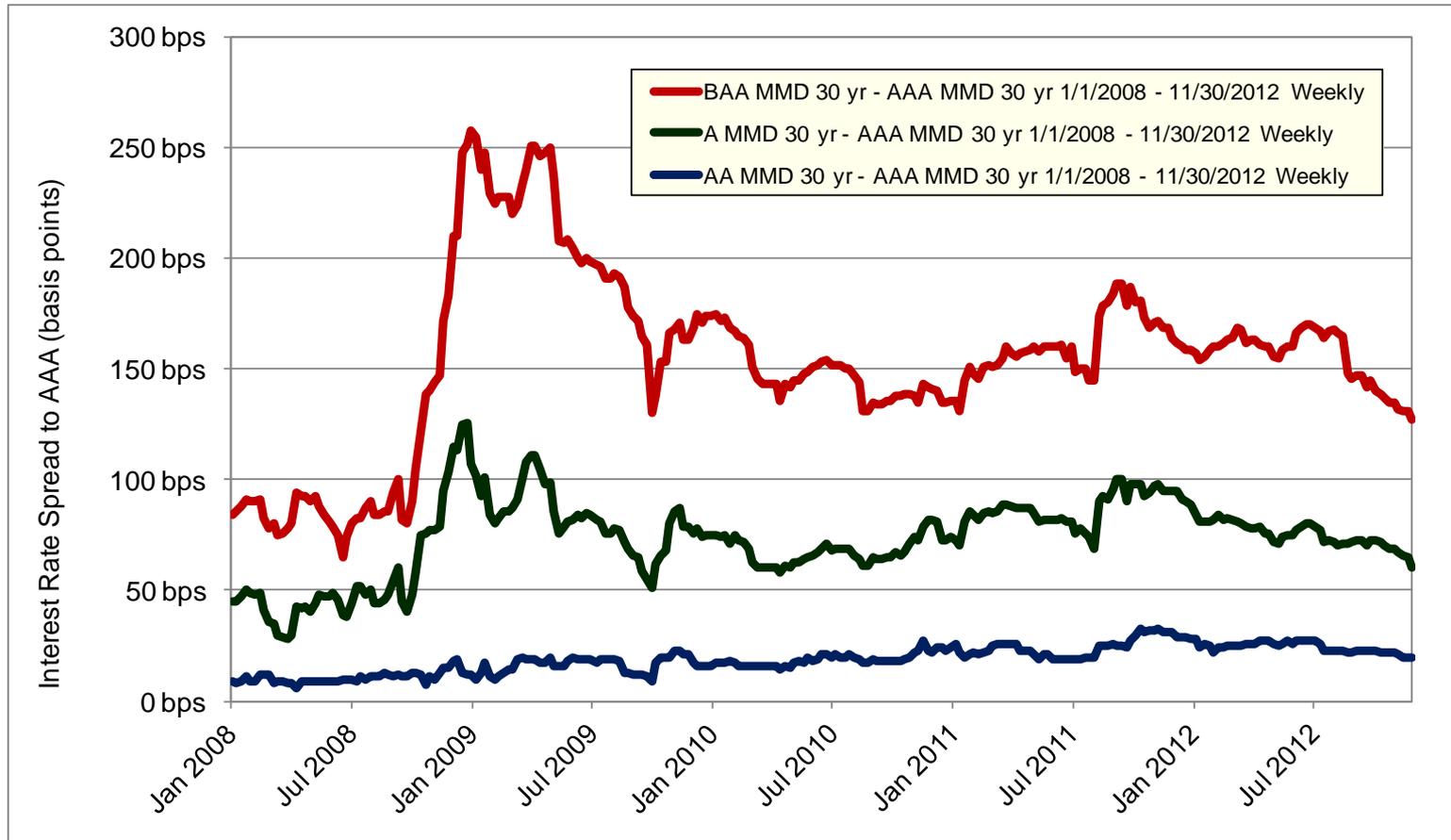
- This index tracks general obligation bonds maturing in 20 years.
- The average ratings are Aa2/AA.
- The lowest point during this 20-year period was 3.29%, which occurred on 11/29/2012.

Bond Buyer's Index of 20 Municipal Bonds



- This index tracks general obligation bonds maturing in 20 years.
- The average ratings are Aa2/AA.
- The lowest point during this 20-year period was 3.29%, which occurred on 11/29/2012.

Historical Credit Rating Spreads to AAA MMD



- “AAA” MMD is the benchmark yield curve for all tax-exempt muni bonds.
- Under the current environment, the “spreads” or differential between “AAA” bonds and lower rated bonds, “AA” or lower, have compressed since 2008, but are significantly wider than past years.
- The City’s bonds would now price around the “A” curve (green curve), versus the prior “BAA” category (red curve).

Refunding Results



Proposed Refunding Opportunity

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 |

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> | |

Refunding of Series 2003 Certificates – TAX SUPPORTED

Preliminary Proposal as presented to the City 10/15/2012

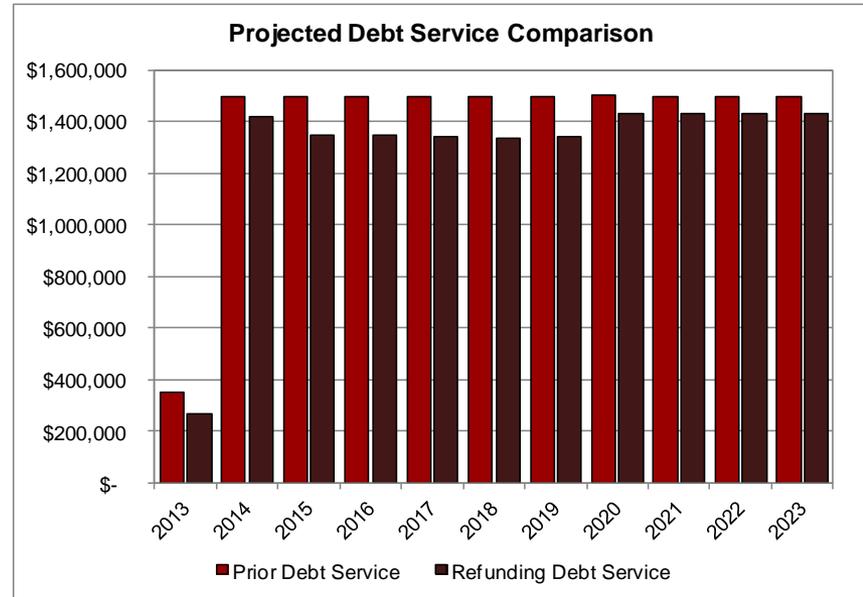
PROJECTED SAVINGS

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> |

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% |



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

Refunding of Series 2003 Certificates – TAX SUPPORTED

Final Numbers 12/4/2012

DEBT SERVICE SAVINGS

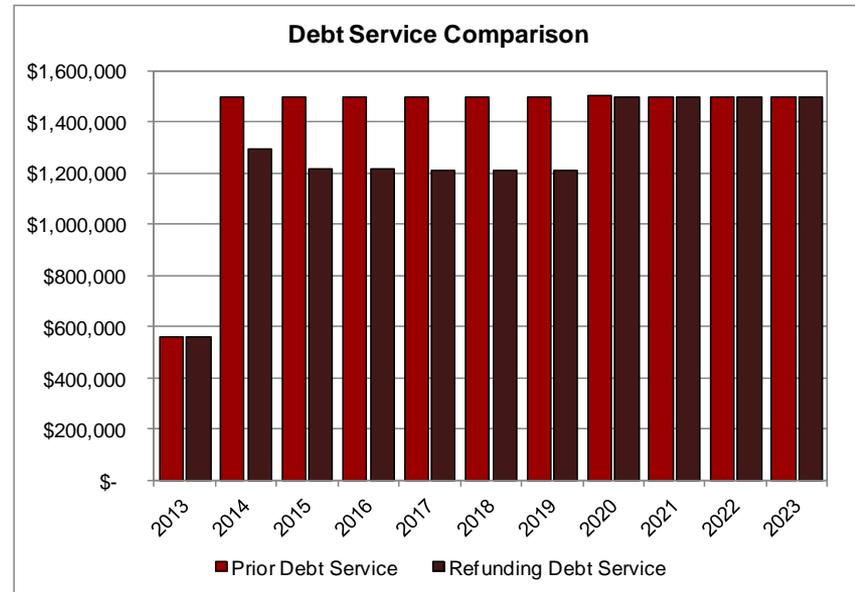
City of Weslaco, Texas
2012 Limited Tax Refunding Bonds
Refunds Series 2003 TAX Supported

| Date | Prior Debt Service | Refunding Debt Service | Savings |
|-----------|----------------------|------------------------|---------------------|
| 8/31/2013 | \$ 559,771 | \$ 558,240 | \$ 1,531 |
| 8/31/2014 | 1,494,478 | 1,292,825 | 201,653 |
| 8/31/2015 | 1,497,309 | 1,214,175 | 283,134 |
| 8/31/2016 | 1,497,183 | 1,215,825 | 281,358 |
| 8/31/2017 | 1,494,406 | 1,211,650 | 282,756 |
| 8/31/2018 | 1,498,403 | 1,206,725 | 291,678 |
| 8/31/2019 | 1,498,425 | 1,210,900 | 287,525 |
| 8/31/2020 | 1,499,213 | 1,494,750 | 4,463 |
| 8/31/2021 | 1,495,500 | 1,495,275 | 225 |
| 8/31/2022 | 1,497,750 | 1,495,188 | 2,563 |
| 8/31/2023 | 1,496,500 | 1,494,550 | 1,950 |
| | <u>\$ 15,528,937</u> | <u>\$ 13,890,102</u> | <u>\$ 1,638,835</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.

2012 Limited Tax Refunding Bonds⁽¹⁾

| | |
|---------------------------|--------------|
| Refunding Par Amount | \$11,915,000 |
| Gross Savings | \$1,638,835 |
| Average Annual Savings | \$163,730 |
| Net Present Value Savings | \$1,494,138 |
| Present Value Benefit (%) | 12.593% |
| True Interest Cost | 2.255% |



(1) Based on delivery date of December 20, 2012. Final pricing as of December 4, 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 Refunding Tax-Supported Debt Service (Savings) ⁽³⁾ | Total Debt Service | 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 | 0.19510 | \$ (1,531) | 2,498,823 | 0.19510 | 2013 |
| 2014 | 1,293,313,564 | 0.00% | 2,490,494 | 0.19852 | (201,653) | 2,288,841 | 0.18245 | 2014 |
| 2015 | 1,293,313,564 | 0.00% | 2,569,746 | 0.20484 | (283,134) | 2,286,612 | 0.18227 | 2015 |
| 2016 | 1,293,313,564 | 0.00% | 2,568,938 | 0.20478 | (281,358) | 2,287,581 | 0.18235 | 2016 |
| 2017 | 1,293,313,564 | 0.00% | 2,568,428 | 0.20473 | (282,756) | 2,285,672 | 0.18220 | 2017 |
| 2018 | 1,293,313,564 | 0.00% | 2,576,819 | 0.20540 | (291,678) | 2,285,141 | 0.18215 | 2018 |
| 2019 | 1,293,313,564 | 0.00% | 2,573,425 | 0.20513 | (287,525) | 2,285,900 | 0.18221 | 2019 |
| 2020 | 1,293,313,564 | 0.00% | 2,041,855 | 0.16276 | (4,463) | 2,037,393 | 0.16240 | 2020 |
| 2021 | 1,293,313,564 | 0.00% | 2,035,165 | 0.16223 | (225) | 2,034,940 | 0.16221 | 2021 |
| 2022 | 1,293,313,564 | 0.00% | 2,038,000 | 0.16245 | (2,563) | 2,035,438 | 0.16225 | 2022 |
| 2023 | 1,293,313,564 | 0.00% | 2,035,750 | 0.16227 | (1,950) | 2,033,800 | 0.16212 | 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 | | \$ (1,638,835) | \$ 28,965,156 | | |
| | | | - Average - | \$ 0.15214 | | | \$ 0.14398 | |
| | | | - Max - | \$ 0.20540 | | | \$ 0.19510 | |

(1) FY 2012 and FY 2013 assessed valuation and 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 August 15, 2013. Tax-supported refunding savings shown for illustrative purposes only; estimated total PV savings of 12.593% of the refunded bonds. Insured market interest rates as of 12/4/2012.

(4) Est. tax collections rate: 97.00%

Recommendation

- We recommend the City approve the Bid from the underwriter
- The City achieved additional financial benefit by waiting until now to do the refunding for the following reasons:
 - Mitigation of Negative Arbitrage
 - Lower interest rates
 - Time to complete draft audit, facilitating in upgrade
- We want to express our appreciation to the City Staff, especially Mr. Olivares, Ms. Givilancz and Mr. Vela, for all their assistance in making this a successful process and transaction
- Thank the Bond Counsel, Winstead, Underwriter, Cabrera and Underwriter's Counsel, Valdez and Shelton, for their efforts
- Thank the City for the honor of serving Weslaco as their Financial Advisor; we appreciate our long-term relationship