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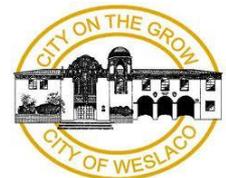
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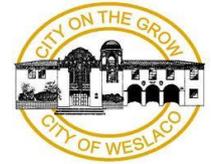


Financial Overview

September 17, 2013

City of Weslaco, Texas

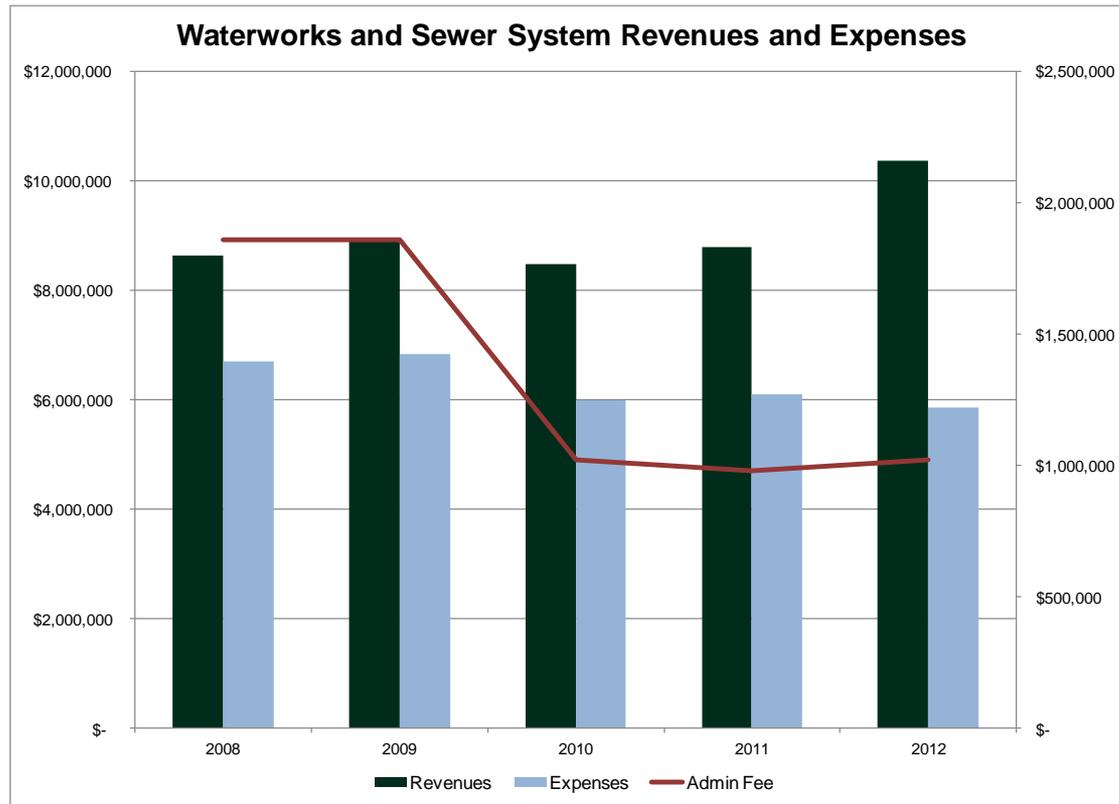
Summary of Water and Wastewater System



Projected Water and Wastewater Rate Adjustments

- The City Commission on December 6, 2011 approved Resolution 2011-74 outlining five years of projected rate adjustments, utilized as part of a rating agency presentation
- The foundation of the rate adjustments were based on a Rate Capacity Study performed by Camp Dresser and McKee
- To date, the City Commission has implemented two of the five years of rate adjustments
- The 2014 Budget does not incorporate either Inside City Limits Residential Customer water or wastewater rate adjustments
- However, the 2014 budget does contain rates adjustments for certain customer classes
- We have been asked to discuss the impact of not implementing these retail rate adjustments in the 2014 budget, the financial soundness of the City and the ability of the City to meet its financial obligations

Waterworks and Wastewater System Operations



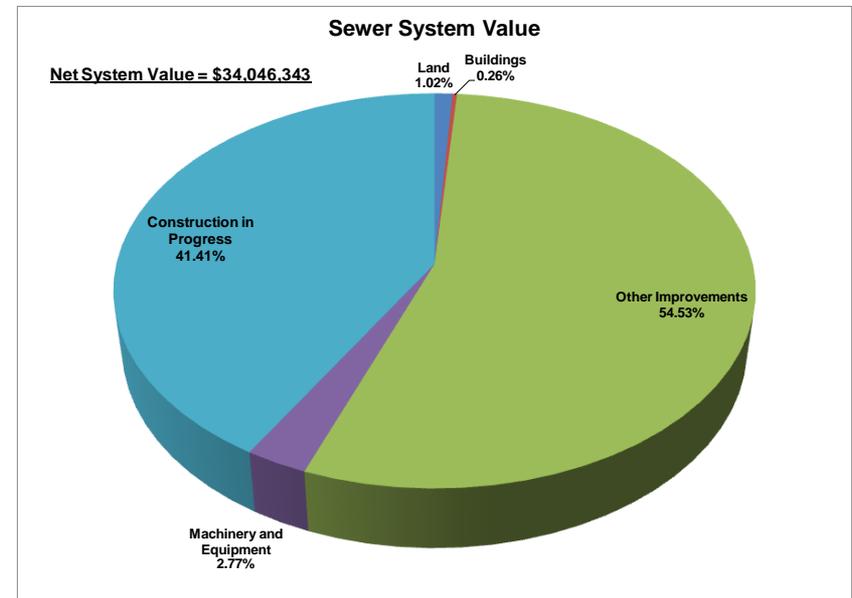
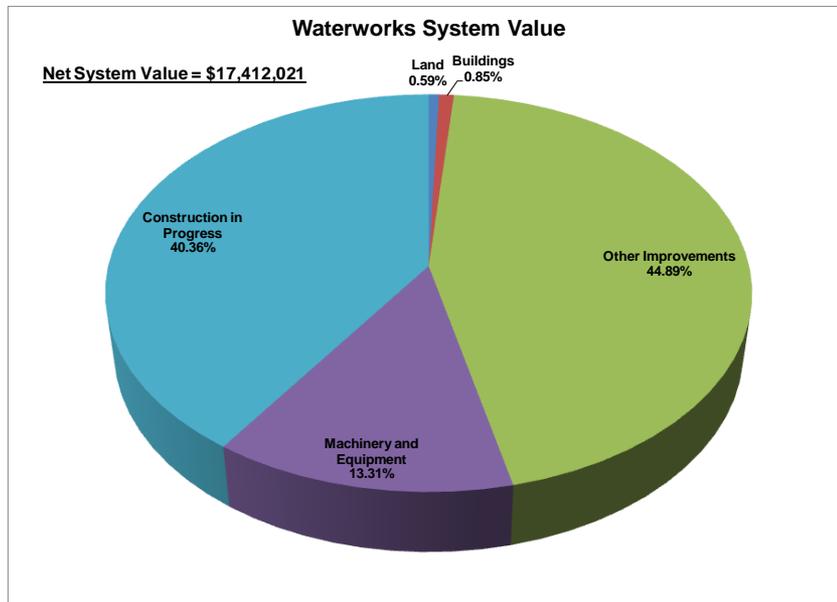
- System Revenues have increased approximately \$1.72 million over 2008 revenues, while Expenses decreased \$849,888
 - 45% Decrease in Administrative Contractual Services, from \$1.859 million in 2008 to \$1,020,390 in 2012
- Net Available for Debt Service increased from \$2.6 million to \$5.2 million (100.6% increase)

Waterworks and Wastewater System Operations

	For Fiscal Year Ended September 30,				
	2012	2011	2010	2009	2008
Revenues					
Water Sales	\$ 5,665,661	\$ 4,728,977	\$ 4,132,623	\$ 4,293,548	\$ 4,159,964
Charges for Services	4,336,976	3,772,857	3,434,957	3,374,207	3,302,985
Interest Earnings	-	109	618,299	852,465	907,118
Miscellaneous	351,403	287,920	278,787	420,128	263,223
Total Revenues	\$ 10,354,040	\$ 8,789,863	\$ 8,464,666	\$ 8,940,348	\$ 8,633,290
Expenses					
Personnel Services	\$ 1,031,403	\$ 1,183,182	\$ 1,209,215	\$ 1,325,256	\$ 1,289,818
Other Services and Charges	1,061,030	1,149,868	1,113,135	1,134,186	1,020,693
Supplies	399,232	355,096	339,157	280,560	373,062
Contractual Services - Operations	2,334,409	2,427,547	2,308,907	2,224,814	2,153,486
Contractual Services - Administration	1,020,390	979,291	1,020,390	1,859,304	1,859,293
Total Expenses	\$ 5,846,464	\$ 6,094,984	\$ 5,990,804	\$ 6,824,120	\$ 6,696,352
Net Available for Debt Service	\$ 4,507,576	\$ 2,694,879	\$ 2,473,862	\$ 2,116,228	\$ 1,936,938
CIP Fees	680,865	621,306	626,884	645,067	631,599
Net Available for Debt Service Adjusted by CIP Fees	\$ 5,188,441	\$ 3,316,185	\$ 3,100,746	\$ 2,761,295	\$ 2,568,537
Dollar Increase in NADS Over Prior Year	\$ 1,872,256	\$ 215,439	\$ 339,451	\$ 192,758	
Cummulative Increase in NADS Over Prior Year	\$ 2,619,904	\$ 747,648	\$ 532,209	\$ 192,758	
Percent Increase in NADS Over Prior Year	56.46%	6.95%	12.29%	7.50%	
Percent Cummulative Increase in NADS Over Prior Year	102.00%	29.11%	20.72%	7.50%	

Waterworks and Wastewater System Operations

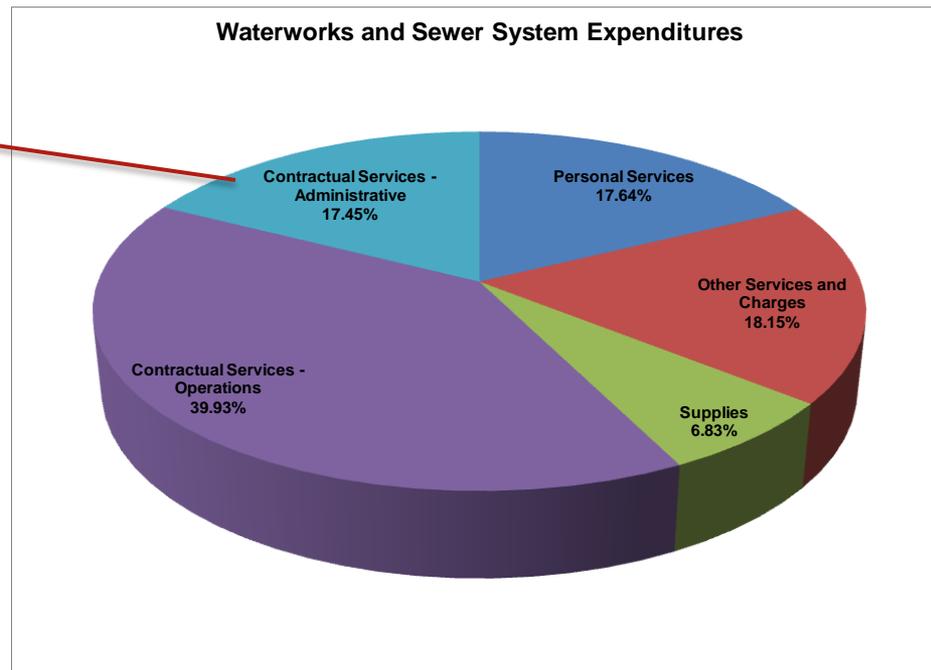
- Total Net System Value has increased from \$31,094,669 in 2008 to \$52,458,364 in 2012
- Construction in progress accounts for over 38% of Sewer System Value and Waterworks System Values



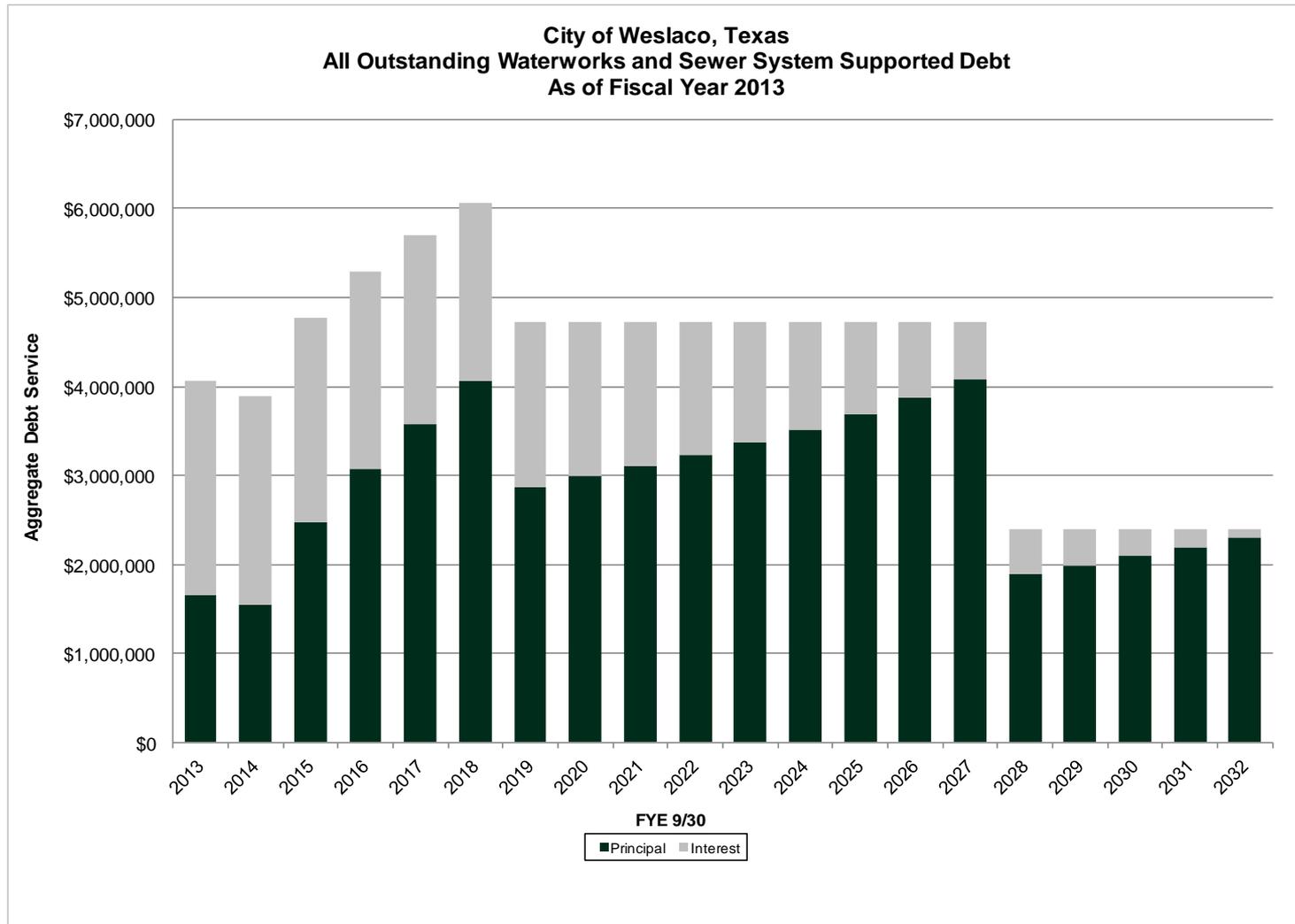
Waterworks and Wastewater System Revenues and Expenditures

- In Fiscal Year 2012, the primary expenditures for the Waterworks and Sewer System were as follows:
 - 40% Operations Contractual Services
 - 18% Personal Services
 - 18% Other Services and Charges
 - 17% Administrative Contractual Services

In 2008, Administrative Contractual Services accounted for approximately 28% of Expenses



Existing Waterworks and Wastewater System Supported Debt



Waterworks & Wastewater System Revenue Supported Debt Capacity Analysis

FYE 9/30	Net Revenue Available for Debt Service ⁽¹⁾	Est. Revenue Growth	Existing Revenue Supported Debt Service	Net Capacity	- WATER/SEWER REV. SUPPORTED -			Total Debt Service	Debt Service Coverage	FYE 9/30
					Proposed: \$9,000,000 Certificates of Obligation, Series 2014 ⁽²⁾					
2013	\$ 5,188,441		\$ 4,059,234	\$ 1,129,207				\$ 4,059,234	1.28x	2013
2014	5,188,441	0.00%	3,890,675	1,297,766	\$ -	\$ 242,346	\$ 242,346	4,133,021	1.26x	2014
2015	5,188,441	0.00%	4,774,588	413,853	-	415,450	415,450	5,190,038	1.00x	2015
2016	5,188,441	0.00%	5,286,388	(97,947)	-	415,450	415,450	5,701,838	0.91x	2016
2017	5,188,441	0.00%	5,691,637	(503,196)	-	415,450	415,450	6,107,087	0.85x	2017
2018	5,188,441	0.00%	6,057,256	(868,815)	-	415,450	415,450	6,472,706	0.80x	2018
2019	5,188,441	0.00%	4,723,730	464,711	180,000	415,450	595,450	5,319,180	0.98x	2019
2020	5,188,441	0.00%	4,723,094	465,347	190,000	410,050	600,050	5,323,144	0.97x	2020
2021	5,188,441	0.00%	4,724,229	464,212	190,000	404,350	594,350	5,318,579	0.98x	2021
2022	5,188,441	0.00%	4,722,756	465,685	195,000	398,650	593,650	5,316,406	0.98x	2022
2023	5,188,441	0.00%	4,723,156	465,285	205,000	391,825	596,825	5,319,981	0.98x	2023
2024	5,188,441	0.00%	4,722,581	465,860	210,000	384,650	594,650	5,317,231	0.98x	2024
2025	5,188,441	0.00%	4,724,456	463,985	215,000	376,250	591,250	5,315,706	0.98x	2025
2026	5,188,441	0.00%	4,727,331	461,110	225,000	367,650	592,650	5,319,981	0.98x	2026
2027	5,188,441	0.00%	4,725,581	462,860	235,000	358,650	593,650	5,319,231	0.98x	2027
2028	5,188,441	0.00%	2,398,581	2,789,860	1,060,000	346,900	1,406,900	3,805,481	1.36x	2028
2029	5,188,441	0.00%	2,398,831	2,789,610	1,110,000	299,200	1,409,200	3,808,031	1.36x	2029
2030	5,188,441	0.00%	2,399,331	2,789,110	1,155,000	249,250	1,404,250	3,803,581	1.36x	2030
2031	5,188,441	0.00%	2,399,831	2,788,610	1,220,000	191,500	1,411,500	3,811,331	1.36x	2031
2032	5,188,441	0.00%	2,400,081	2,788,360	1,275,000	130,500	1,405,500	3,805,581	1.36x	2032
2033	5,188,441	0.00%		5,188,441	1,335,000	66,750	1,401,750	1,401,750	3.70x	2033
			<u>\$ 84,273,348</u>		<u>\$ 9,000,000</u>	<u>\$ 6,695,771</u>	<u>\$ 15,695,771</u>	<u>\$ 99,969,119</u>		

(1) FY 2012 Net Waterworks and Sewer System Revenue Available, adjusted by CIP fee; assumes 0% annual growth.

(2) Assumes January 15, 2014 dated and delivery date with first interest payment in August 15, 2014 and first principal payment August 15, 2014. Bank qualified insured "A" interest rates as of September 13, 2013 + 30 bps.

Considerations for Evaluating Not Implementing a Rate Adjustment in 2014 FY

- The September 2011 Camp Dresser and McGee (“CDM”) Debt Capacity Analysis utilized projected interest rates for purposes of the study because the study was completed prior to the issuance of debt
- The projected rates were higher than actually achieved by the City of Weslaco
- The City strategically placed \$8,500,000 Tax Notes in late 2011 with Frost Bank at a rate of 2.75% to obtain Qualified Tax Exempt Obligation (“QTEO”) status saving an estimated 0.70% or 70 basis points versus having combined this amount with the \$24,335,000 issued in January 2012
- The \$24,335,000 had a True Interest Rate of 4.748%
- A second consideration is the CDM Study assumed the balance of the funds needed for the estimated project funding of \$9,000,000 would be issued in January of 2013, to again attain the QTEO status
 - However, the Bond Proceeds for the 2012 bond issue were not drawn as rapidly as projected and it is expected that the final bond issue will not be needed until 2014

Considerations for Evaluating Not Implementing a Rate Adjustment in 2014 FY

- The Camp Dresser and McGee (“CDM”) Debt Capacity Analysis targeted a 1.17 Times Debt Service Coverage
- The City recently engaged CAPEX Consulting Group to prepare an updated Water and Wastewater Rate Study and Long-Term Financial Plan presented August 7, 2013
- The CAPEX study did an extensive Peer Comparative Rate Analysis for various components of the City’s Water and Wastewater rate structure
- The CAPEX study identified a couple of customer classes that are being under undercharged
 - Commercial Charge with Meter Size Escalator
 - Irrigation Meter
 - Wholesale Water
- When there are customer classes that are being undercharged, it means that the other customer classes are subsidizing those customers

Considerations for Evaluating Not Implementing a Rate Adjustment in 2014 FY

- We have seen clients who have experienced similar situations, choose to bring the customer classes into more of a rate parity prior to implementing additional rate adjustments on the customer classes that are subsidizing other customers
- CAPEX projects that by implementing rate adjustments over the next five years for the customers currently undercharged, the additional revenues will increase by \$3,648,760 or 33%
- The CAPEX projected Rate Revenues in 2018 of \$14,702,556 are approximately the same as the CDM projected Rate Revenues in 2017 of \$14,964,998

Considerations for Evaluating Not Implementing a Rate Adjustment in 2014 FY

- Consideration of Commission Approved Resolution 2011-74 by the Standard & Poor's
- Rating agencies understand that models are a very valuable planning tool and actually give "credit" to the utilization of long-term planning models in their Financial Management Assessment ("FMA")
- However, they also understand that models are a planning tool and that as new information becomes available, the models need to be updated
- The rating agencies tend to focus more on the financial outcome including Net Available for Debt Service and Debt Service Coverage Ratios, versus the actual percent rate adjustment calculated
- The rating agencies will factor into their assessment the rationale for the City's decision regarding the implemented rate adjustments, will request the ability to review the CAPEX study, and ask the City to outline the rate adjustment plan going forward

Waterworks and Wastewater System Operations – Projections

	For Fiscal Year Ended September 30,			
	CAPEX 2014	BUDGET 2014	UNAUDITED 2013	AUDITED 2012
Revenues				
Water Sales	\$ 11,650,152	\$ 7,171,397	\$ 6,320,576	\$ 5,665,661
Charges for Services	(1)	4,491,915	4,714,309	4,336,976
Interest Earnings	-	-	-	-
Miscellaneous	281,396	281,397	435,514	351,403
Total Revenues	\$ 11,931,548	\$ 11,944,709	\$ 11,470,399	\$ 10,354,040
Expenses				
Personnel Services	\$ 6,772,037	\$ 5,103,515 (2)	\$ 5,038,246 (2)	\$ 1,031,403
Other Services and Charges	(1)	(1)	(1)	1,061,030
Supplies	(1)	(1)	(1)	399,232
Contractual Services - Operations	(1)	(1)	(1)	2,334,409
Contractual Services - Administration	(1)	1,120,390	1,120,390	1,020,390
Total Expenses	\$ 6,772,037	\$ 6,223,905	\$ 6,158,636	\$ 5,846,464
Net Available for Debt Service	\$ 5,159,511	\$ 5,720,804	\$ 5,311,762	\$ 4,507,576
CIP Fees	618,870	618,870	676,784	680,865
Net Available for Debt Service Adjusted by CIP Fees	\$ 5,778,381	\$ 6,339,674	\$ 5,988,546	\$ 5,188,441
Dollar Increase in NADS Over Prior Year	\$ (210,165)	\$ 351,128	\$ 800,105	\$ 1,872,256
Cummulative Increase in NADS Over Prior Year	\$ 3,209,844	\$ 3,771,137	\$ 3,420,009	\$ 2,619,904
Percent Increase in NADS Over Prior Year	-3.51%	5.86%	15.42%	56.46%
Percent Cumm. Increase in NADS Over Prior Year	124.97%	146.82%	133.15%	102.00%

(1) Budget Line Items consolidated since item items are difference.

(2) Excludes Capital Outlay of \$500,000 for Water and \$605,000 for Wastewater.

Waterworks & Wastewater System Revenue Supported Debt Capacity Analysis with CAPEX Projections

City of Weslaco, Texas

Waterworks & Sewer System Revenue Supported Debt Capacity Analysis

As of September 17, 2013 - **\$9,000,000**



FYE 9/30	Net Revenue Available for Debt Service ⁽¹⁾	Est. Revenue Growth	Existing Revenue Supported Debt Service	Net Capacity	- WATER/SEWER REV. SUPPORTED -			Total Debt Service	Debt Service Coverage	FYE 9/30
					Proposed: \$9,000,000 Certificates of Obligation, Series 2014 ⁽²⁾					
2013	\$ 5,371,818		\$ 4,059,234	\$ 1,312,584				\$ 4,059,234	1.32x	2013
2014	5,778,381	0.00%	3,890,675	1,887,706	\$ -	\$ 242,346	\$ 242,346	4,133,021	1.40x	2014
2015	6,193,211	0.00%	4,774,588	1,418,623	-	415,450	415,450	5,190,038	1.19x	2015
2016	6,684,582	0.00%	5,286,388	1,398,194	-	415,450	415,450	5,701,838	1.17x	2016
2017	7,225,248	0.00%	5,691,637	1,533,611	-	415,450	415,450	6,107,087	1.18x	2017
2018	7,871,492	0.00%	6,057,256	1,814,236	-	415,450	415,450	6,472,706	1.22x	2018
2019	7,871,492	0.00%	4,723,730	3,147,762	180,000	415,450	595,450	5,319,180	1.48x	2019
2020	7,871,492	0.00%	4,723,094	3,148,398	190,000	410,050	600,050	5,323,144	1.48x	2020
2021	7,871,492	0.00%	4,724,229	3,147,263	190,000	404,350	594,350	5,318,579	1.48x	2021
2022	7,871,492	0.00%	4,722,756	3,148,736	195,000	398,650	593,650	5,316,406	1.48x	2022
2023	7,871,492	0.00%	4,723,156	3,148,336	205,000	391,825	596,825	5,319,981	1.48x	2023
2024	7,871,492	0.00%	4,722,581	3,148,911	210,000	384,650	594,650	5,317,231	1.48x	2024
2025	7,871,492	0.00%	4,724,456	3,147,036	215,000	376,250	591,250	5,315,706	1.48x	2025
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2032	7,871,492	0.00%	2,400,081	5,471,411	1,275,000	130,500	1,405,500	3,805,581	2.07x	2032
2033	7,871,492	0.00%		7,871,492	1,335,000	66,750	1,401,750	1,401,750	5.62x	2033
			\$ 84,273,348		\$ 9,000,000	\$ 6,695,771	\$ 15,695,771	\$ 99,969,119		

(1) Projected net revenues available for debt service as provided in the Water and Wastewater Rate Study and Long Term Financial Plan presented by CapEx Consulting Group on August 7, 2013; assumed to remain constant in FY 2019 and thereafter.

(2) Assumes January 15, 2014 dated and delivery date with first interest payment in August 15, 2014 and first principal payment August 15, 2014. Bank qualified insured "A" interest rates as of September 13, 2013 + 30 bps.

Summary Considerations for Water and Wastewater System

- Based on our review of the studies provided by CDM and CAPEX, although the preliminary rate adjustments planned for the 2014 fiscal year do not impact the Inside City Limit Residential customers, the new rate adjustments applied to identified undercharged customer classes, will generate similar revenues
- It is important to understand that models are dynamic with many changing variables that require periodic, and even some annual, adjustments
- I would recommend that we schedule an opportunity to visit with or meet with Standard & Poor's to discuss the CAPEX study and the rationale for the City's 2014 budget and plan going forward

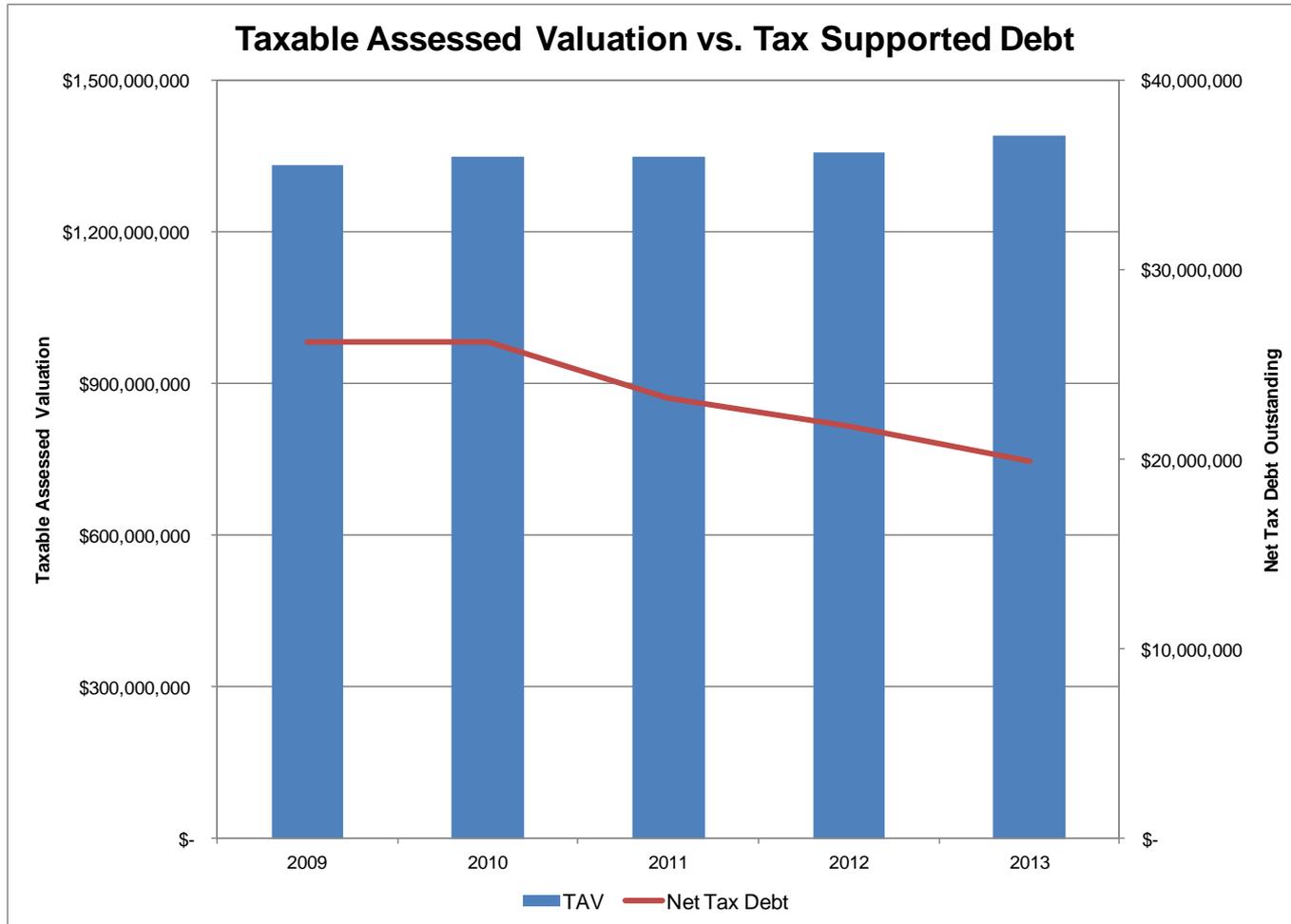
Summary of General Fund



General Fund Considerations

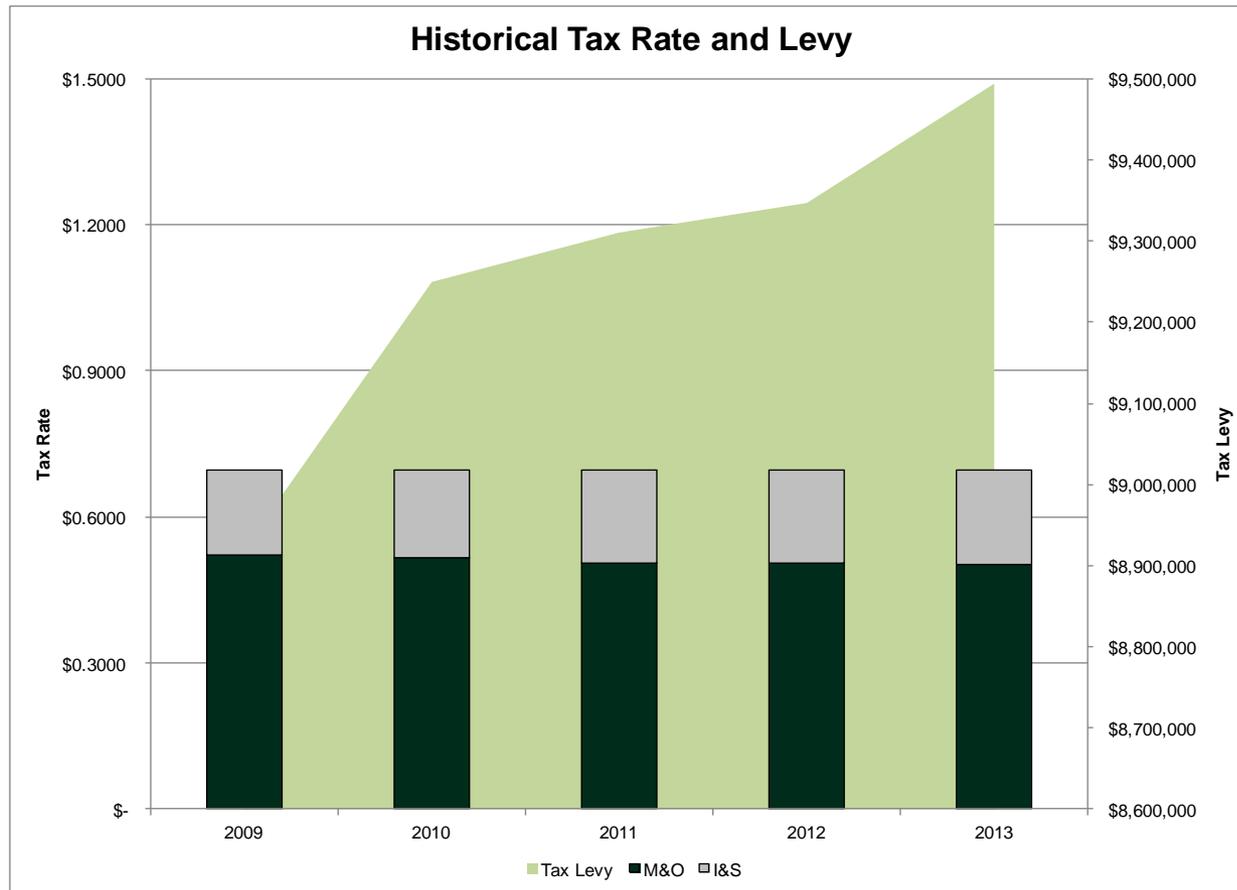
- The City Commission in their 2014 Budget reduces the City's Maintenance and Operations Tax Rate by \$0.01 or one penny
- We have been asked to discuss the impact of lowering the tax rate by this amount and it's impact on the financial soundness of the City and the ability of the City to meets it's financial obligations

Taxable Assessed Valuation and Tax Supported Debt



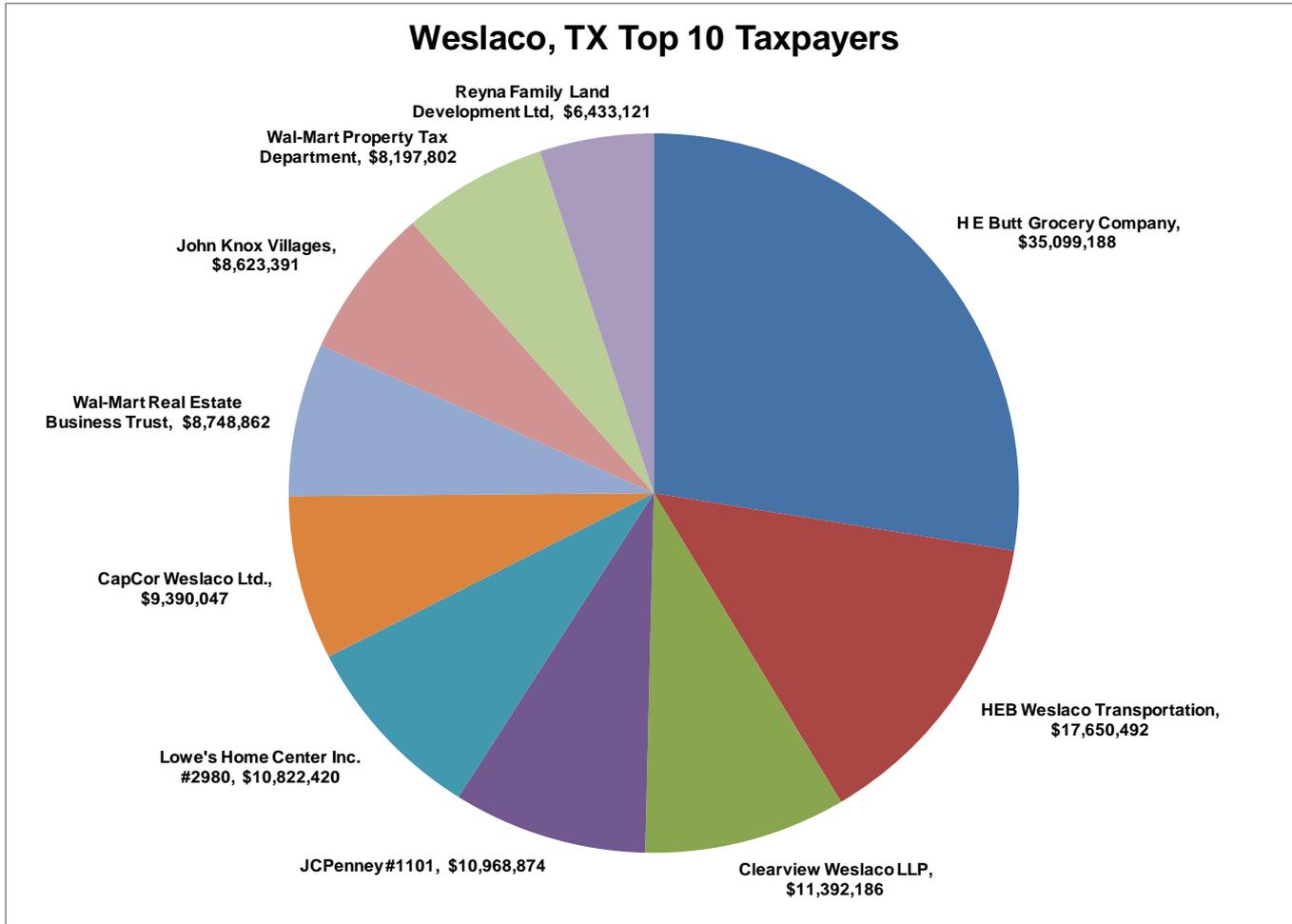
- The City's Taxable Assessed Value has grown by approximately 4.4% since 2009, while Tax Supported Debt has decreased by more than 23.9%.

Tax Rate and Tax Levy



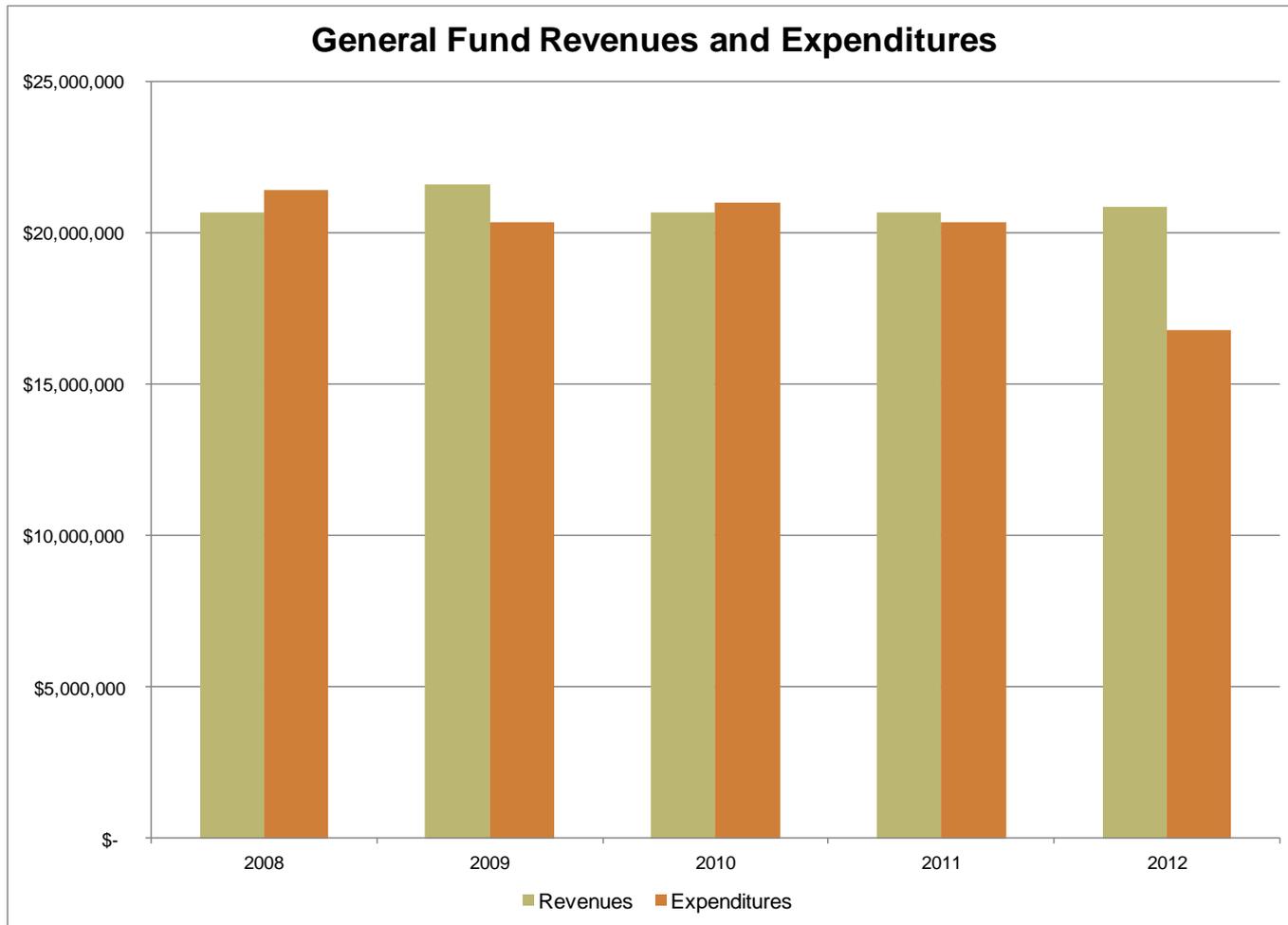
- The growth in Taxable Assessed Value has led to an increase in the City's Tax Levy despite no change to the combined ad valorem tax rate, increasing from \$8,920,936 in 2009 to 9,493,959 in 2013
- With the growth in Taxable Assessed Value, including the 2014 Fiscal Year, a \$0.01 or 1 cent reduction in the tax rate in the 2014 budget is projected to generate the same tax levy as in the 2012 Fiscal Year

Top Ten Taxpayers



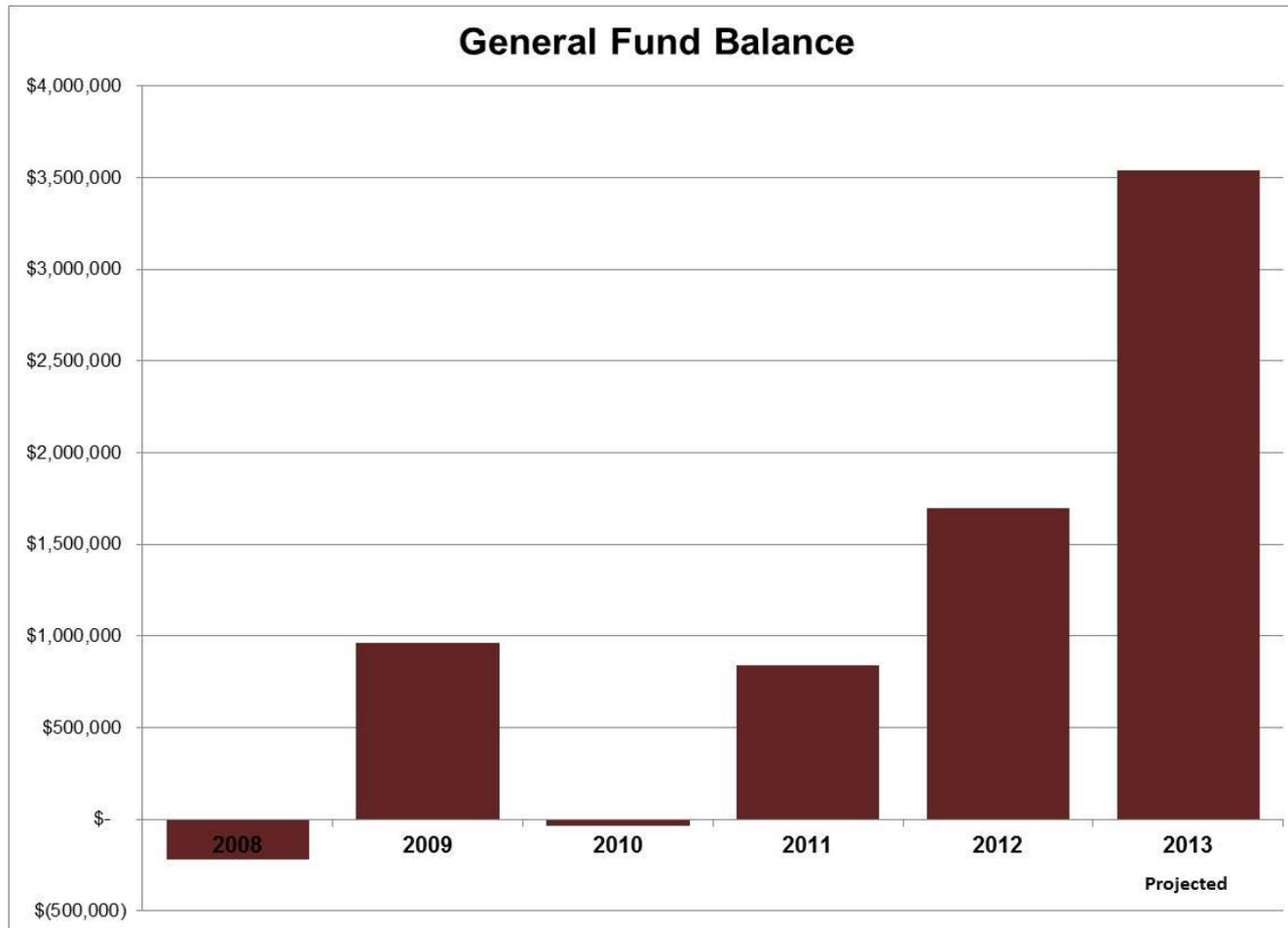
- The Top 10 Taxpayers comprise approximately 9.16% of the City's TAV.

General Fund Revenues and Expenditures



- General Fund Revenues have increased approximately \$182,670 since 2008, while Expenditures Net of Capital Outlay have decreased \$4,621,114.

General Fund – Fund Balance



- General Fund fund balance is projected at the end of 2013 to be approximately \$3.5 million after negative fund balances in 2008 and 2010.
- ***Standard & Poor's Rating upgrade from BBB+ to A- occurred in November of 2012.***

General Fund – Fund Balance Projection

Fiscal Year	Annual Savings	Sales Tax Refunds	Other*	Projected Total	Cumulative Total	Actual Fund Balance
2010 - 11	\$0	\$0	\$0	\$649,926	\$649,926	\$836,818
2011 - 12	\$500,000	\$0	\$0	\$500,000	\$1,149,926	\$1,692,898
2012 – 13	\$500,000	\$335,000	\$448,358	\$1,283,358	\$2,433,284	\$3,537,665*
2013 – 14	\$500,000	\$335,000	\$448,358	\$1,283,358	\$3,716,642	
2014- 15	\$500,000	\$335,000	\$448,358	\$1,283,358	\$5,000,000	
Total	\$2,000,000	\$1,340,000	\$1,793,432	\$5,000,000		

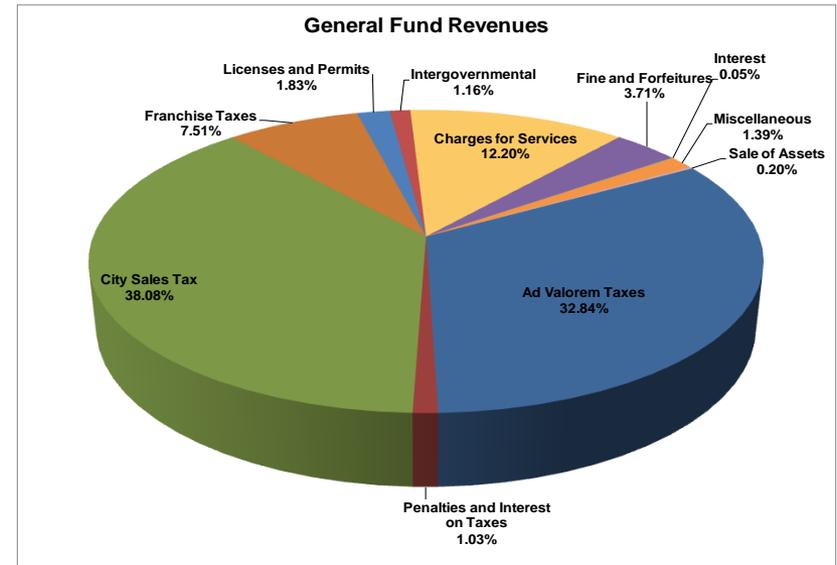
- City has discussed targeting 25% Fund Balance, with the goal of building the General Fund balance up to that level by fiscal year 2014-2015
- Given the reductions to Operating Expenses over the past couple of years, the City may achieve the 25% sooner and with an amount less than \$5 million

* **Projected.**

General Fund Revenues and Expenditures

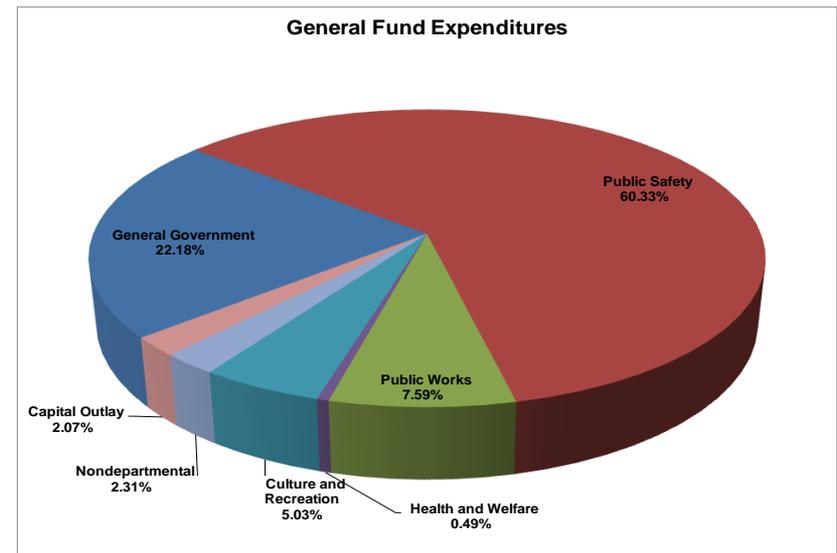
- In Fiscal Year 2012, the primary sources of revenues for the General Fund were as follows:

- 38% Sales Taxes
- 33% Ad Valorem Taxes
- 12% Charges for Services
- 8% Franchise Taxes

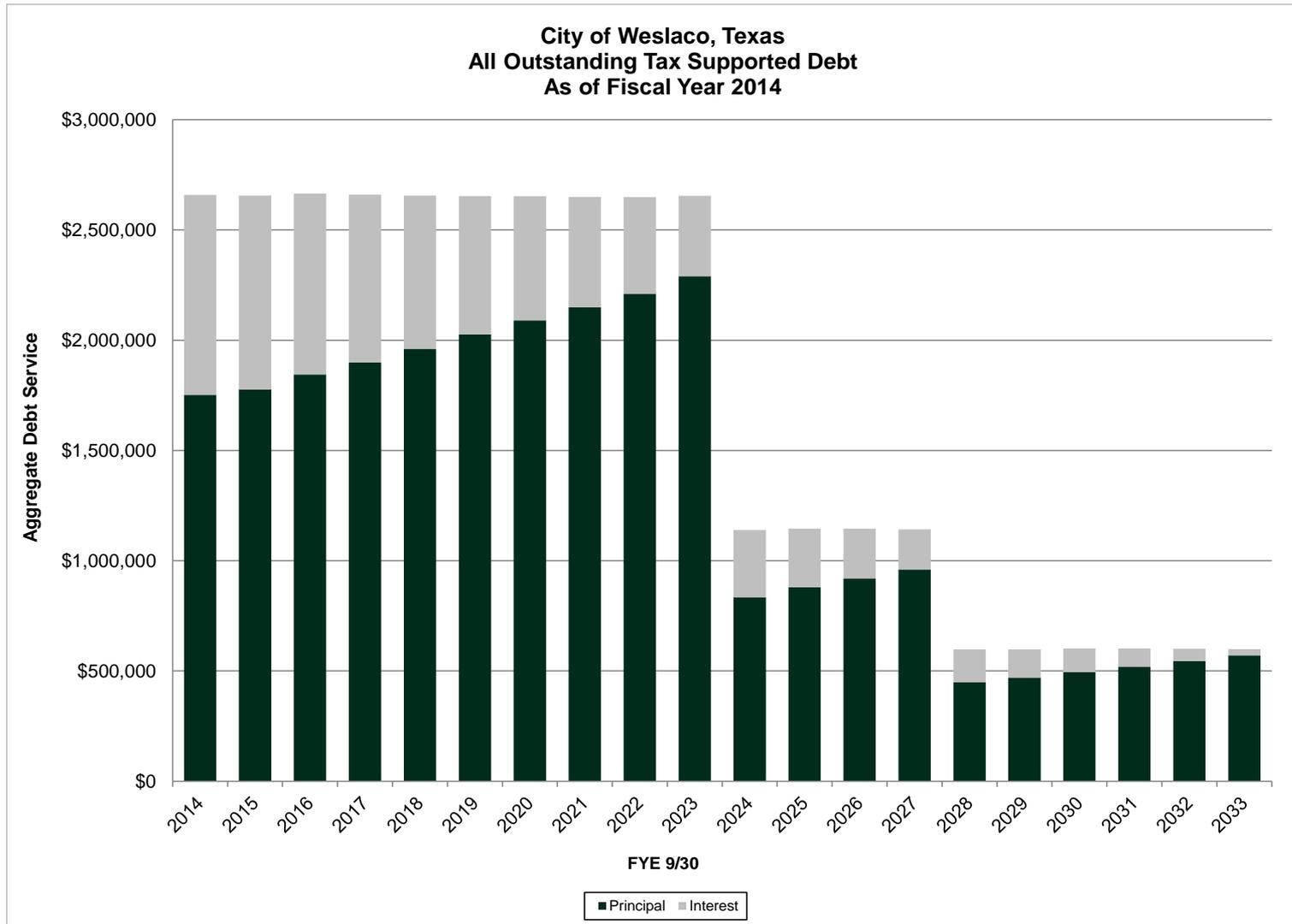


- In Fiscal Year 2012, the primary expenditures for the General Fund were as follows:

- 60% Public Safety
- 22% General Government



Existing Tax Supported Debt



CITY OF WESLACO, TEXAS

Historical Sales Tax

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2009	\$ 6,881,590	77.14%	\$ 0.5166	\$ 213.13
2010	6,913,765	74.75%	0.5126	193.83
2011	7,398,468	79.46%	0.5483	201.48
2012	7,933,740	84.88%	0.5851	209.97
2013	7,746,771	81.60%	0.5571	199.24

(1) Includes the sales tax for reduction of property taxes; does not include the sales tax for economic development.

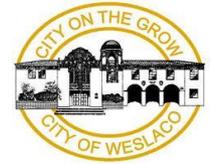
(2) Based on population estimates of provided by City Officials.

(3) Collections through June 30, 2013.

General Fund Considerations

- The City Commission's 2014 budget with the \$0.01 or 1 cent Maintenance and Operation tax reduction, was discussed in concept with the Standard & Poor's as part of the rating process during the City's recent refinancing for interest savings
- City Management indicated this was part of a longer term strategy pending approval by the City Commission
- City Management also was very clear this strategy would not delay the attainment of a General Fund fund balance of 25% operating expenses as previously committed
- City Management also conveyed if there were changes in the budgeted revenues such that the impact differed from projections, the plan would be reevaluated and adjusted
- Standard & Poor's factored the reduction of the Maintenance and Operations Tax Rate into the reaffirmation of the City's rating

Summary



Summary

- The proposed 2014 budget has certain financial changes incorporated
- The Water and Wastewater rate adjustment changes are based on a recent study performed by a professional outside consultant and with projections of 2013 fiscal year end financials
- The Maintenance and Operating Tax Rate changes are based on increases in the General Fund fund balance and projections of the 2013 fiscal year end financials
- The proposed changes have been made in a deliberate manner with supporting rationale
- City Management has indicated they will continue to monitor the financials of the City to ensure the projections are realized
- City Management has indicated that should the projections not be realized, alternative strategies will be proposed for consideration