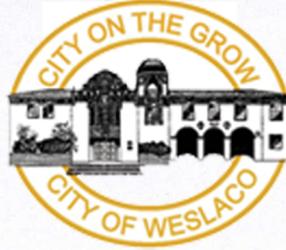


City of Weslaco

"The City on the Grow"



Miguel D. Wise, Mayor
John F. Cuellar, Mayor Pro-Tem, District 2
David Fox, Commissioner, District 1
Olga M. Noriega, Commissioner, District 3
Gerardo "Jerry" Tafolla, Commissioner, District 4
Lupe V. Rivera, Commissioner, District 5
Joe A. Martinez, Commissioner, District 6

Leonardo Olivares, City Manager

Press Release

Release on:
November 30, 2012

Contact:
Leonardo Olivares
956.973.3110

S&P Upgrades Weslaco Bond Rating

Weslaco, TX — Yesterday, Standard and Poor's upgraded the City of Weslaco's BBB+ bond rating to A-.

"In the last two years, City of Weslaco's legislative body has taken great strides to ensure that fiscally responsibility is a foundation of our local government," said Mayor Miguel D. Wise. "The tough decisions to get the finances in order took some drastic measure, but in the end it paid off by the increased bond rating by Standard & Poor. This is really a vote of confidence for Weslaco's city government and faith in our regional economy. Our increased fund balance coupled with long-term comprehensive planning will ensure that fiscal year 2013 promises to be the best year ever for Weslaco."

Since 2007 the City had received a total of three downgrades from either S&P or Moody's. Beginning in 2010, the City initiated several measures to reduce personnel and professional service costs. This has resulted in an unaudited fund balance of \$2.5 million in FY 2012. The City is ahead of its schedule to have a 25.0% (or \$5.0 million) General Fund balance by FY 2015.

The upgrade to A- will allow the City to save tax dollars in financing new projects. For example, "we have projected the additional savings to the City on the upcoming [\$11.9 million] refunding is approximately \$162,795," said Anne Burger, the City's Financial Advisor. "On a percent basis, this increases the savings by approximately 12%.

More info at: standardandpoors.com

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RatingsDirect®

Summary:

Weslaco, Texas; General Obligation

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Summary:

Weslaco, Texas; General Obligation

Credit Profile

US\$11.935 mil ltd tax rfdg bnds ser 2012 due 08/15/2023

<i>Long Term Rating</i>	A-/Stable	New
Weslaco GO wtrwks (AGM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Upgraded
Weslaco GO		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Weslaco, Texas' general obligation (GO) debt one notch to 'A-' from 'BBB+'. The outlook is stable.

The upgrade reflects our assessment of the city's improved financial performance, resulting in, what we view as, adequate reserves.

At the same time, Standard & Poor's assigned its 'A-' long-term rating and stable outlook to the city's series 2012 limited-tax GO refunding bonds.

The rating also reflects our opinion of the city's:

- Moderately high overall debt based on market value;
- Status as a regional commercial center, serving nearby communities in Texas and Mexico; and
- Adequate wealth and income.

The city's limited ad valorem tax pledge secures the bonds. The state limits the tax rate to \$2.50 per \$100 of assessed valuation (AV); the city can use \$1.50 for tax-supported debt service. Management plans to use bond proceeds to refinance the city's series 2002 GO refunding bonds and series 2003 certificates of obligation.

Following years of structural imbalances under a previous administration, which placed significant budgetary pressure on Weslaco's finances, current management -- consisting of several members with roughly three years' experience with the city -- outlined a plan to build reserves to \$5 million, or roughly 25% of expenditures, by fiscal year-end 2015. Management reports it is on track to meet the reserve goal by the target date.

The fiscal 2013 budget projects adding \$989,714 to the general fund, which would raise total fund balance to roughly \$3.5 million by year-end. This is based on unaudited fiscal 2012 results, where officials are estimating a general fund balance of \$2.5 million at year-end due to a \$1.7 million operational surplus as the city continues to adjust staffing levels while conservatively projecting its budget. For fiscal 2013, officials have conservatively budgeted for a 2%

decrease in both property and sales tax collections compared with fiscal 2011 results despite a relatively stable property tax base over the past five fiscal years and a growing sales tax base for the past seven fiscal years, including a 7% increase in sales tax collections for fiscal 2012. The budget also assumes a 5% decrease in fines and fees. The total property tax rate has remained a constant 69.67 cents per \$100 of AV for the past five fiscal years.

Weslaco ended fiscal 2011 with a \$322,000 surplus and raised general fund balance to \$836,000, of which it classified \$509,000 as available fund balance, or 2.5% of expenditures, which we view as adequate. The improved finances are due, in part, to the rescindment of \$550,000 previously held as a revolving loan contingency and a volunteer separation program that drew 54 employees. The city was previously overstaffed, which contributed to structural imbalances. Primary revenue sources include sales tax revenue (35%) and property taxes (33%).

The utility fund makes debt service payments on roughly two-thirds of Weslaco's tax-backed debt. The water and sewer fund had a \$1.2 million unrestricted cash balance, or, what we consider, an adequate 72 days' cash on hand, at fiscal year-end 2011. The cash balance also equaled 7.1% of general fund expenditures. Management had historically supported general fund operations with transfers in from the utility fund, but officials indicate they discontinued this practice in fiscal 2011. Fiscal 2011 revenue provided, what we view as, a good 1.4x annual debt service coverage of the city's water and sewer revenue bonds, GO bonds, and certificates of obligation supported by the utility fund.

Standard & Poor's considers Weslaco's financial management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Key practices include management's:

- Revenue and expenditure assumptions based, in part, on three to five years of historical trends, coupled with the use of outside data;
- Monthly budget updates provided to the commission with amendments performed as needed;
- Informal long-term financial planning projected out five years that takes into account salaries, benefits, and fund balance goals;
- Informal long-term capital planning projected out five years with funding sources identified and capital needs discussed with the commission annually; and
- Annual investment performance and holdings reports to the commission.

Weslaco reports that it has a debt management policy but that it has not recently updated the policy. The city also has a formal reserve policy of maintaining fund balance at 25% of expenditures, but it has not adhered to this minimum reserve recently.

After offsetting self-supported debt by the city's utility system and state support for debt service on bonds issued by Weslaco Independent School District, overall net debt is, in our opinion, a moderate \$2,700 per capita, or a moderately high 7.6% of market value. We consider debt amortization above average with officials planning to retire 57% of principal over 10 years. Debt service carrying charges were, in our view, a high 34% of governmental expenditures in fiscal 2011 due, in part, to the retirement of \$3.9 million of series 1999 certificates of obligation. Management does not plan to issue additional GO debt within the next two years.

Weslaco provides pension benefits through a nontraditional, joint-contributory, hybrid-defined-benefit plan: the Texas Municipal Retirement System. As of Dec. 31, 2011, Weslaco has a funded ratio of 101.9%. The city met its required

to be a recent

contribution of \$853,565 to the plan in fiscal 2011, or 5% of general fund expenditures. The Firemen's Relief & Retirement Fund administers a retirement plan for fire department employees; the fund has an unfunded actuarial accrued liability of \$4.3 million. Retirees can continue to receive health insurance coverage under the city's plan, but they are required to pay the full premium themselves.

Weslaco is in southeast Hidalgo County ('AA-' GO debt rating) near the Mexican border. The city is a regional commercial center midway between McAllen ('AA+' GO debt rating) and Harlingen (AA-), and it is nine miles north of the Rio Grande River. The city's population has grown slowly but steadily this decade to an estimated 38,881. Weslaco, acting as a regional commercial center, serves a Midvalley regional population of 231,570. Winter tourism, ecotourism, agriculture, and international trade drive the economy. Leading employers include:

- Weslaco Independent School District (2,817 employees),
- Knapp Medical Center (1,000),
- Woodcrafters (592), and
- IDEA Public Schools (507).

During the past two years, Weslaco added retailers such as Academy, Lowe's, J.C. Penney Co., and PetCo. In addition, AISLA Coat; Colimex; TDI Industries; and Texas Department of Public Safety have relocated to the city, providing employment opportunities. According to management, Long Horn Steakhouse and Chick-fil-A will also open within the city in 2013. As of August 2012, unemployment of 12.4% was higher than the state's 7% and the nation's 8.2%. Median household effective buying income is, in our opinion, an adequate 65% of the national average. We also consider market value, a wealth indicator, adequate at an estimated \$35,763 per capita. The property tax base has remained relatively flat for the past four fiscal years; it totals \$1.3 billion for fiscal 2013 amid the economic slowdown. The 10 leading taxpayers are very diverse, accounting for just 9.2% of AV.

Outlook

The stable outlook reflects Standard & Poor's opinion that Weslaco's major revenue streams will likely remain relatively stable and continue to provide sufficient coverage of operational and capital expenses. We expect Weslaco to continue, what we regard as, its conservative budgetary practices while building general fund balance to its 25% reserve target. We also expect Weslaco's utility fund, supported by planned rate increases, to continue to provide adequate coverage of certain tax-secured debt. Consistent positive financial performance and further fund balance improvement could support our raising the rating further. Deterioration in the city's financial profile, however, could negatively affect the rating.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006

Temporary telephone contact number(s): Jim Tchou (917-282-9433).

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