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Summary:
San Benito, Texas; General Obligation

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Credit Profile		
US$7.50 mil comb tax and ltd pledge rev certs of oblig ser 2011 dtd 09/01/2011 due 02/01/2031		
Long Term Rating	A/Stable	New
US$1.52 mil go rfdg bnds ser 2011 dtd 09/01/2011 due 02/01/2020		
Long Term Rating	A/Stable	New
San Benito GO		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

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

The upgrade reflects our opinion of the city's recent history of consistently very strong finances.

At the same time, Standard & Poor's assigned its 'A' long-term rating and stable outlook to the city's series 2011 GO refunding bonds and series 2011 combination tax and limited-pledge revenue certificates of obligation.

The rating also reflects our opinion of the city's steady property tax base growth, reflecting continued demand for the area.

We believe these strengths are somewhat weakened by the city's:

- Low wealth and income levels, and
- Moderate overall debt based on market value with additional debt-financed capital needs.

A limited ad valorem tax pledge secures the bonds. Ad valorem taxes and a subordinate revenue pledge, not to exceed $1,000, from the city's combined waterworks and sewer system secure the certificates.

Officials plan to use bond proceeds to refinance the city's series 2000 certificates of obligation and certificate proceeds to improve citywide infrastructure, including utility system, streets, and drainage improvements.

In our opinion, San Benito's financial position has remained consistently very strong during the past five years, maintaining an unreserved general fund balance between 18.3% and 21.4% of expenditures. The unreserved balance totaled $2 million, or 20.9% of expenditures, at fiscal year-end 2010. Realizing municipal court fines were not coming in as expected, management implemented budget reductions in all departments; this resulted in $239,000 of savings. In addition, the city is projecting to add $118,000 to fund balance by fiscal year-end 2011. Officials plan to adopt a surplus 2012 budget, reflecting a $250,000 increase to fund balance to support its goal of building reserves to 90 days' operation. Management plans to achieve this goal by adding $250,000 to fund balance for each of the next three years. Leading revenue streams include property (40.6%) and sales (29.4%) taxes. The tax rate is 68.81 cents per $100 of assessed value; officials expect this to remain unchanged for fiscal 2012. The series

2011 refunding issue will allow the city to shift about four cents to the operations tax from the debt service tax to help the reserve initiative.

Standard & Poor's considers San Benito'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. In addition to a formal fund balance policy that calls for a minimum of 45 days' general operating expenses on reserve and a target of 60 days'-75 days', key items include a well-defined investment policy and monthly fiscal presentations to the commission that track revenue, expenditures, and investment performance. The city, however, does not have a formal debt management policy that extends beyond state guidelines or a capital improvement plan that identifies funding for all years and links back to the operating budget. Officials make budget amendments midyear.

San Benito, with a population estimate of 25,365, is eight miles south of Harlingen and 20 miles north of Brownsville on U.S. Highway 83 in the Rio Grande Valley. The city acts as a commercial center for Cameron County's surrounding rural community. We view wealth and income levels as low: Median household effective buying income is just 55% of the national average. Market value, a wealth indictor, is just $23,043 per capita. City unemployment as of May 2011 was 10%, above the state's 7.9% and the nation's 9.1%. In addition to city and county employment opportunities, other leading city employers include H-E-B, Wal-Mart, and the local school district.

The city's property tax base continues to exhibit, what we view as, steady modest growth. Assessed valuation (AV) has increased by an average of 3% annually over the past five years to $584 million for fiscal 2011. The city's 10 leading taxpayers account for, in our opinion, a very diverse 10.1% of taxable fiscal 2011 AV, down from 17% in fiscal 2000. Given its access to Harlingen's growing medical services corridor and the manufacturing base at the Free Trade International Bridge, tax base growth should remain steady.

Management attributes the majority of San Benito's overall net debt to San Benito Consolidated Independent School District. Following this issuance and after accounting for an estimated 68.5% in state aid and self-support from the water and sewer system, total overall net debt is, in our view, a moderate 5.7% of market value, or a low $1,313 per capita. Debt service carrying charges are, what we consider, a moderate 14% of general fund expenditures. Amortization is, what we view as, above average with officials planning to retire 76% of principal over 10 years. The city's main capital needs are for its water and wastewater system, as well as street and drainage improvements. Officials tentatively plan to issue additional certificates of obligation in 2012 or 2013 for street improvements.

The city participates in the statewide Texas Municipal Retirement System (TMRS). TMRS is a joint-contributory, hybrid-defined-benefit plan with contribution rates actuarially determined annually. The city has continued to meet its annual required contribution for the past three fiscal years, including $460,000, or 4.6% of general fund expenditures, in fiscal 2010. The city does not offer health care benefits to retirees, so it does not have an other postemployment benefits liability.

Outlook

The stable outlook reflects Standard & Poor's expectation that local economic expansion and diversification will likely continue and that the city will likely sustain, what Standard & Poor's considers, its strong finances and maintain its manageable debt levels, with continued support for debt service from the water and wastewater system.

We do not think we will change the rating within the stable outlook's two-year parameter because we expect wealth and income levels to remain, what we regard as, relatively low.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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