



## **New Issue: Moody's assigns Aa2 underlying rating to the City of South Padre Island's (TX) 3.1 million General Obligation Refunding Bonds, Series 2012**

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Global Credit Research - 30 Jul 2012

### **Aa2 rating affects \$7.84 million in outstanding parity debt inclusive of the current sale**

SOUTH PADRE ISLAND (TOWN OF) TX  
Cities (including Towns, Villages and Townships)  
TX

#### **Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Refunding Bonds, Series 2012	Aa2
<b>Sale Amount</b> \$3,110,000	
<b>Expected Sale Date</b> 08/10/12	
<b>Rating Description</b> General Obligation Limited Tax	

#### **Moody's Outlook** NOO

#### **Opinion**

NEW YORK, July 30, 2012 --Moody's Investors Service has assigned an Aa2 underlying rating to the City of South Padre Island's (TX) \$3.1 million General Obligation Refunding Bonds, Series 2012. Concurrently Moody's affirms Aa2 rating of \$4.7 million in parity debt outstanding which was previously issued by the City. Proceeds from the current sale will refund certain maturities of the city's outstanding debt for a projected net present value savings with no extension of the final maturity.

#### **RATINGS RATIONALE**

The bonds are payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the city. The rating assignment of Aa2 reflects the city's sound financial operations with healthy reserves, large and stable tax base, and below average debt burdens with no future debt plans in the near term.

#### **STRENGTHS**

- \* Sound financial operations
- \* Healthy reserves
- \* Below average debt burden with limited future borrowing plans

#### **CHALLENGES**

- \* Hurricane risk given location on Texas gulf coast

#### **DETAILED CREDIT DISCUSSION**

#### **SOUND FINANCIAL OPERATIONS AND HEALTHY RESERVES**

We expect the city's financial operations and reserve position to remain stable in the near-term. The city's General

Fund balance remains strong at \$6.29 million (or an ample 63.4% of General Fund revenues) at fiscal year-end 2011. The receipts of \$900 thousand in lease proceeds and a \$248 thousand transfer in from the city's Beach Maintenance Fund offset a \$1.0 million use of reserves for capital outlay which increased the fund balance slightly in fiscal 2011. The city has adopted a strong formal policy to maintain 6 months of operating expenditures in General Fund reserves, which we believe reflects prudent fiscal management and demonstrates that officials remain focused on offsetting reliance on the tourism industry and ongoing hurricane risk. City official report fiscal 2012 sales tax collections are trending up 5% above last year's collections, beverage tax collections are trending up 2%, and hotel tax collections are also up modestly above last year's collections. The city recently made a mid-year budget adjustment to utilize roughly \$562 thousand for various one-time projects around the city, yet given current trends of revenue collections, the city anticipates any draw down in General Fund reserves will be modest in nature and the city will not draw down reserves below its formal Fund balance policy. We believe the city's fund balance policy, along with management's willingness to maintain liquid and strong reserve levels, is an important rating factor given the nature of the city's tourism based economy and vulnerability to hurricane events.

#### LARGE TAX BASE ALONG TEXAS GULF COAST

We believe the city's large tax base will remain stable despite preliminary indications of a modest decline in fiscal 2013 taxable value. South Padre Island is a barrier island located on the western boundary of the Gulf of Mexico near the US and Mexico border. Located off the southern Texas gulf coast, South Padre Island is a resort community with an economy based primarily on tourism. The city also has a sizable residential tax base, in addition to an influx of people visiting the island in the summer months, and resident wealth levels have historically remained well above state and national averages. The city's approximate estimate of inhabitants on the island is currently 5,900. We note that water and sewer services are provided by the Laguna Madre Water District rather than by the city. The city's taxable value for fiscal year 2012 is approximately \$2.62 billion which represents a 1.6% increase over the previous year. The five year average annual growth in full value is strong at 6.5% for fiscal years 2007-2012. City officials report that preliminary numbers indicate that the city's taxable value will fall roughly 0.04% in fiscal 2013 when compared to 2012 and cite reevaluation of existing properties as contributing to the decline. Despite the modest decline in taxable value, city officials report modest development continues on the island, much of which is located on the northern portion of the island. City officials report a new hotel in association with the Schlitterbahn Waterpark is scheduled to be operational in the next few months. Moody's notes the island's exposure to the Gulf makes it vulnerable to hurricane events and while this risk is incorporated into the Aa2 rating, the rating also reflects the financial position of the city which we believe is a mitigating factor to the risk given that liquidity is needed immediately following a storm.

#### BELOW AVERAGE DIRECT DEBT BURDEN WITH LIMITED FUTURE DEBT PLANS

The city's direct debt burden of 0.3% as a percent of fiscal year 2012 full value is below average for similarly rated cities. Post-sale the city will have approximately \$7.84 million in general obligation limited tax debt outstanding. Payout is relatively slow with 58.7% of principal amortized in the following ten years with all debt maturing in 2031. The city has no near term plans for issuing additional debt. All of the city's debt is in fixed rate mode and the city has no exposure to derivative or swap contracts. The overlapping debt burden of 2.8% is also below average for similarly rated cities and is attributable mainly to overlapping debt issued by Point Isabel Independent School District (G.O. rated Aa3), Texas Southmost College District (not rated by Moody's), and Laguna Madre Water District (G.O. rated Aa2). We believe city's debt burden will likely remain modest given the lack of future borrowing plans.

#### WHAT COULD MAKE THE RATING GO UP

- \* Significant growth in assessed valuation
- \* Maintenance of sound financial operations and healthy reserves

#### WHAT COULD MAKE THE RATING GO DOWN

- \* Contraction of assessed valuation
- \* Significant declines in healthy reserve position

#### KEY STATISTICS:

2010 Estimated Population: 5,900

2012 Full Valuation: \$2.62 billion

2012 Full Value per Capita: \$444,400

Direct Debt Burden: 0.3%

Overall Debt Burden: 2.8%

Payout of Principal (10 years): 58.7%

FY 2011 General Fund balance: \$6.29 million (63.4% of General Fund revenues)

Post-sale parity debt outstanding: \$7.84 million

#### RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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