

City of Pharr, Texas

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Credit Profile

Outstanding General Obligation Combination Tax and Limited Pledge Revenue Certificates of Obligation, Various Series

Unenhanced Rating

A(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) to 'A' from 'BBB' on Pharr, Texas' general obligation (GO) bonds. The outlook is stable. The upgrade reflects our view of the city's improved financial position and management's commitment to maintaining adequate reserve levels while reducing the city's dependence on transfers from its municipal enterprise fund to finance general fund operations.

The ratings also reflect our view of the city's:

- Participation in the growing south Texas economy, including the McAllen metropolitan statistical area;
- Improved financial position with healthy reserves; and
- Low overall net debt on per capita basis coupled with rapid debt amortization.

The strengths are somewhat mitigated in our opinion by the city's:

- Low wealth and income levels; and
- Exposure to the Mexican economy, which can have a significant impact on the city's revenue sources, including sales taxes and international bridge revenues.

An ad valorem property tax pledge and surplus net revenues of the city's Pharr-Reynosa International Bridge secure the series 2005A bonds. We consider this debt, as well as the \$7.1 million of unrated tax notes issued in 2006 that are secured solely by bridge revenues, self-supporting because of the bridge's demonstrated ability to generate appropriate financial margins. A limited-tax GO pledge secures the city's other debt outstanding.

Pharr, with a population estimate of 63,574, is in the Rio Grande Valley, four miles east of McAllen, Texas and 3.2 miles north of Mexico via the Pharr-Reynosa International Bridge. The bridge, which opened in 1994 and has become the fourth largest and busiest bridge in south Texas, handles both commercial and passenger operated vehicles. The international bridge has spurred economic activity in international trade, but the local economy remains anchored by agriculture and mineral production. Leading employers in the area include Pharr-San Juan-Alamo Independent School District and Convergys, accounting for 4,972 and 1,638 employees, respectively. At 9.4% in August 2009, Pharr's unemployment rate was higher than the state's rate of 8.1% but lower than the nation's rate of 9.7%. Median household effective buying income is low, in our opinion, at just 66% of the state's average and 64% of the nation's average.

Assessed value (AV), which has been healthy, increased by 42.5% in the past three years to \$2 billion in fiscal 2009. Preliminary estimates from the appraisal district indicate another increase in AV to \$2.2 billion for fiscal 2010. The leading 10 taxpayers are very diverse in our opinion, and account for 6.3% of fiscal 2008 AV. We view market value per capita as low at \$32,322 in fiscal 2009.

Pharr's financial performance and position continue to improve after reporting a negative unreserved fund balance of \$6.4 million in fiscal 2007. The city ended fiscal 2008 with a \$222,000 surplus, after transfers, due to a combination of borrowed money and transfers from the utility and bridge funds. The unreserved general fund, however, remained \$2.8 million, or 8.5% of expenditures, a level that we consider strong. Management is projecting another surplus for fiscal 2009 and an unreserved general fund balance of about \$5 million, which is equivalent to a strong 14.7% of 2009 projected general fund expenditures. Management's minimum fund balance goal is equal to about three months' operating expenses or about \$7.5 million, which management is planning to achieve at the end of fiscal 2010. Ad valorem (38% of total general fund revenues) and sales and franchise taxes (34%) were the major components of 2008 general fund revenues. The fiscal 2010 tax rate was set at 68 cents per \$100 of AV, slightly down from fiscal 2009.

Standard & Poor's deems Pharr's management practices "standard" under its Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. In terms of revenue and expenditure assumptions, management prepares its budgets based on a trend analysis and also receives additional information from the chamber of commerce. Officials monitor the budget regularly, make amendments as needed, and provide updates to the board quarterly. Management lacks policies in some key areas, including long-term financial planning, long-term capital planning, and debt management policy.

After we factor in state assistance for overlapping school district debt, Pharr's overall net debt burden is in our view moderate at 3.6% of preliminary AV and low at \$1,252 per capita. Amortization of GO-backed debt is fairly rapid, with 78% of debt service being retired over 10 years and entire debt to be retired by 2023. The debt service carrying charge is what we consider moderate at 9.5% of 2008 total governmental expenditures. The city's capital needs are limited, and management does not plan to issue additional debt in the near future.

Outlook

The stable outlook reflects Standard & Poor's expectation that Pharr's economic and property tax bases will continue to expand and provide sufficient revenues to meet the city's operational and capital

expenses while allowing management to maintain its strong reserves. Standard & Poor's also expects the city's limited additional capital needs will ensure debt levels remain manageable.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

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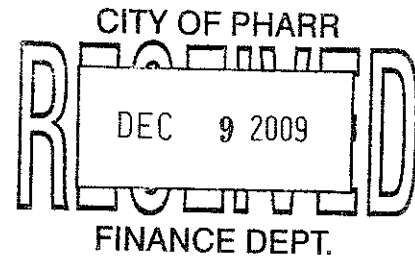
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November 30, 2009

City of Pharr
118 S. Cage Blvd.
P.O. Box 1729
Pharr, TX 78577
Attention: Mr. Juan G. Guerra, CPA, Finance Director



**Re: *City of Pharr, Texas, Outstanding Combination Tax and Limited Pledge Revenue
Certificates of Obligation, Series 2001, (MBIA), (National)***

Dear Mr. Guerra:

Standard & Poor's has reviewed the Standard & Poor's underlying rating (SPUR) on the above-referenced obligations. After such review, we have changed the rating to "A" from "BBB" and changed the outlook to stable from negative. A copy of the rationale supporting the rating and outlook is enclosed.

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Mr. Juan G. Guerra, CPA

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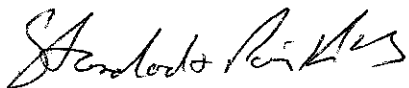
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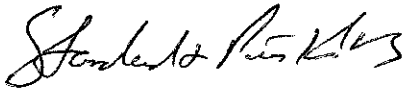
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A handwritten signature in black ink, appearing to read "Standard & Poor's Ratings Services".

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November 30, 2009

City of Pharr
118 S. Cage Blvd.
P.O. Box 1729
Pharr, TX 78577
Attention: Mr. Juan G. Guerra, CPA, Finance Director

Re: ***City of Pharr, Texas, Outstanding General Obligation Refunding Bonds, Series 2005B, (MBIA), (National)***

Dear Mr. Guerra:

Standard & Poor's has reviewed the Standard & Poor's underlying rating (SPUR) on the above-referenced obligations. After such review, we have changed the rating to "A" from "BBB" and changed the outlook to stable from negative. A copy of the rationale supporting the rating and outlook is enclosed.

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P.O. Box 1729
Pharr, TX 78577
Attention: Mr. Juan G. Guerra, CPA, Finance Director

Re: ***City of Pharr, Texas, Outstanding General Obligation Refunding Bonds, Series 2005B, (MBLA), (National)***

Dear Mr. Guerra:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "A" rating and changed the outlook to positive from developing. A copy of the rationale supporting the rating and outlook is enclosed.

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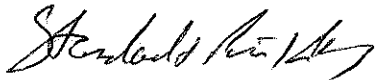
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P.O. Box 1729
Pharr, TX 78577
Attention: Mr. Juan G. Guerra, CPA, Finance Director

Re: ***City of Pharr, Texas, Outstanding Combination Tax and International Bridge Revenue Refunding Bonds, Series 2005A, (AMBAC)***

Dear Mr. Guerra:

Standard & Poor's has reviewed the Standard & Poor's underlying rating (SPUR) on the above-referenced obligations. After such review, we have changed the rating to "A" from "BBB" and changed the outlook to stable from negative. A copy of the rationale supporting the rating and outlook is enclosed.

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Pharr, TX 78577
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November 30, 2009

City of Pharr
118 S. Cage Blvd.
P.O. Box 1729
Pharr, TX 78577
Attention: Mr. Juan G. Guerra, CPA, Finance Director

Re: *City of Pharr, Texas, Outstanding Combination Tax and Limited Pledge Revenue
Certificates of Obligation, Series 2001*

Dear Mr. Guerra:

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