

# RatingsDirect®

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## Summary:

# South Padre Island, Texas; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

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### Credit Profile

South Padre Island GO

*Long Term Rating*

AA/Stable

Upgraded

**South Padre Island GO**

*Unenhanced Rating*

AA(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services raised its rating on South Padre Island, Texas' existing general obligation (GO) debt one notch to 'AA' from 'AA-' based on Standard & Poor's local GO criteria released Sept. 12, 2013. The outlook is stable.

A continuing annual ad valorem tax levied on all taxable property in the city secures the bonds. The state limits the total tax to no more than \$2.50 per \$100 of assessed valuation (AV) with a further restriction of \$1.50 of the \$2.50 maximum tax rate for all tax-supported debt.

The rating reflects our assessment of the following factors for the city:

- We consider South Padre Island's economy to be strong, with projected per capita effective buying income at 140% of the nation and market value per capita of \$425,246. Despite participating in the broad and diverse Brownsville-Harlingen metropolitan statistical area, the city is a tourist-oriented resort community with a dependency on tourism and visitor travel to support its local economy. South Padre Island, with a population estimate of 5,900, is in Cameron County on a half-mile-wide barrier island that extends for 34 miles. The Laguna Madre Bay to the west and the Gulf of Mexico to the east surround the island. Visitor travel might fluctuate depending on the nation's, state's, and northern Mexico's economic conditions. In addition, the city's location makes it prone to experiencing severe weather-related damage that could have an adverse effect on its economy. Assessed valuation (AV) has increased by an aggregate 6.7% in the past five years to \$2.5 billion in fiscal 2014. The significant appreciation of existing properties and the steady development of high-end condominium towers and townhomes continue to drive tax base expansion. The tax base is very diverse, with the 10 leading taxpayers accounting for just 4.5% of AV. County unemployment has been high, averaging 10.5% for 2012, with preliminary estimates for 2013 at 10.1%.
- In our opinion, the city's budgetary flexibility is very strong, with available reserves historically maintained above 30% of expenditures. Audited fiscal 2012 available general fund balance was \$6.3 million, representing 64% of general fund expenditures. Management is projecting the ratio of available general fund balance to expenditures remained relatively steady at 57% in fiscal 2013, with no plans to draw down the fund balance in fiscal 2014.
- South Padre Island's budgetary performance has been adequate, in our view, with a 0.3% deficit for the general fund in fiscal 2012 and a 10.9% surplus for total governmental funds. Estimates for fiscal 2013 indicate another general fund deficit of 9.0% and a total governmental funds surplus of 12.1%, while fiscal 2014 projections reflect breakeven

operations for the general fund.

- Supporting the city's finances is liquidity we consider very strong. Officials reported a total-government-available-cash ratio of 47% of total governmental fund expenditures and 643% of debt service in fiscal 2012. City projections indicate liquidity remained what we view as very strong through fiscal 2013, with the ratios improving due to higher estimated year-end cash amounts and lower estimated debt service payments. We believe South Padre Island has strong access to external liquidity because it has issued GO debt frequently during the past 20 years.
- We view the city's management conditions as strong, with "good" financial practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.
- In our opinion, South Padre Island's debt and contingent liabilities profile is very strong, mainly benefitting from the rapid amortization of debt, with 69.6% of principal retired over 10 years, and overall net debt compared to market value at 2.4%, which we consider low. Total governmental fund debt service as a percentage of total governmental fund expenditures was 7.4% and net direct debt as a percentage of total governmental fund revenue was 30.7%. The city is discussing the possibility of issuing revenue bonds for convention center renovations over the next two years, but has not finalized plans regarding how much debt would be issued or when. The city participates in the Texas Municipal Retirement System (TMRS), a statewide defined-benefit pension plan. Its contribution rate is actuarially determined annually. Its net pension obligation at fiscal year-end 2012 was \$117,940. For fiscal 2012, the annual pension cost was \$859,094; the city contributed \$850,866, which represented 100% of its annual required contribution (ARC) or 99% of the cost, but excluded the interest on net pension obligation. The ARC accounted for 3.6% of total governmental expenditures. As of Dec. 31, 2012, the most recent actuarial valuation date, the plan was 92% funded and the unfunded actuarial accrued liability was \$1.6 million. Other postemployment benefits offered to retirees include group-term life insurance through TMRS known as the supplemental death benefits fund (SDBF). South Padre Island contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance limited to \$7,500 for retirees. In 2012, the city's contributions were just \$1,340.
- We consider the Institutional Framework score for Texas cities as strong. See "Institutional Framework Overview: Texas Local Governments," Sept. 12, 2013.

## Outlook

The stable outlook reflects our opinion of South Padre Island's very strong budget flexibility, liquidity, and debt and contingent liabilities profile. We do not expect to revise the rating in the next two years because we believe the city's budgetary performance will remain adequate and that its underlying economy will continue to be dependent on the tourism sector.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments, Sept. 12, 2013

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