

City of Bellaire, Texas

Primary Credit Analysts:

Lauren Spalten
Dallas
214-871-1421
lauren_spalten@
standardandpoors.com

Secondary Credit Analysts:

Horacio Aldrete-Sanchez
Dallas
(1) 214-871-1426
horacio_aldrete@
standardandpoors.com

Credit Profile

US\$6. mil General Obligation Bonds, Series 2010A dated 06/01/2010, due 02/15/2035

Long Term Rating	AAA/Stable	New
Outstanding General Obligation and Refunding Bonds, Series 1998, 2001, 2005, 2006, 2007, 2009, 2010		
Long Term Rating	AAA/Stable	Affirmed
Outstanding General Obligation and Refunding Bonds, Series 2001, 2002, 2002A, 2002B, 2003, 2004, 2005, 2006, 2007		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Bellaire, Texas' series 2010A general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating and underlying rating (SPUR) on the city's existing GO debt. The outlook is stable.

In our view, the ratings reflect the city's:

- Mature, almost entirely residential community that participates in the deep and diverse Houston MSA;
- Very strong wealth and income levels; and
- Very strong financial reserves.

An ad valorem tax levied on taxable property within the city secures the bonds. Officials will use bond proceeds to fund costs associated with improving, repairing, replacing, or extending the city's street, sidewalk, and drainage facilities.

The 3.6-square-mile Bellaire, with an estimated population of 17,611, is a home-rule municipality 7 miles from Houston's central business district; such access allows for employment opportunities throughout the deep and diverse MSA. The city has no vacant or undeveloped land, but its location puts a premium on values. Despite its small size, the city's taxable assessed valuation (AV) is nearly \$3.3 billion for fiscal 2010, or what we consider to

be an extremely strong \$187,170 per capita. The 10 leading taxpayers account for, in our opinion, a very diverse 9.2% of AV, reflecting no concentration in the property tax base. The city's per capita income level remains very strong at 267% and 244% of state and national averages, respectively. Median household effective buying income is very strong, in our opinion, at 209% of the national average.

We believe that the city's financial position remains very strong. In fiscal 2009, officials drew down the general fund balance by about \$845,000 to use for various planned capital expenditures. Despite the drawdown, which brought the unreserved fund balance to \$3.75 million, the unreserved general fund balance still equated to a very strong 25% of operating expenditures. This is in line with the city's formal policy of maintaining a minimum of three months' operating expenditures in reserve. The tax rate of 38 cents per \$100 of AV remains among the area's lowest rates, and given the city's built-out status and lack of growth-related pressures common elsewhere in the MSA, the tax rate continues to decrease. The city has adopted a balanced budget for fiscal 2010.

Standard & Poor's deems Bellaire's financial management practices "strong" under its Financial Management Assessment (FMA) methodology, indicating that practices are strong, well embedded, and likely sustainable.

In our opinion, the city's overall net debt burden is a high \$5,778 per capita; however, compared to AV, it is moderate at 3.1% due mostly to the large amount of overlapping debt from Harris County and Houston Independent School District. Amortization is average, with 45% of principal retiring in the next 10 years and all debt currently scheduled to retire by 2035. Carrying charges were elevated at 25% for fiscal 2009. We understand that city officials plan to issue approximately \$5 million of additional bonds in 2011.

Outlook

The stable outlook reflects our expectation that the city's strong planning and financial management efforts will allow management to adopt structurally balanced budgets while addressing current identified capital needs. Given the city's pay-as-you-go strategy and low property tax rate, management does not expect elevated debt levels to overly pressure the budget.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of 05-May-2010)

Bellaire GO

Unenhanced Rating

AAA(SPUR)/Stable

Affirmed

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