

City of Woodville, Texas

Primary Credit Analysts:

Omar Tabani
Dallas
214-871-1472
omar_tabani@
standardandpoors.com

Secondary Credit Analysts:

Sarah Smaardyk
Dallas
(1) 214-871-1428
sarah_smaardyk@
standardandpoors.com

Credit Profile

US\$1.235 mil General Obligation Refunding Bonds, Series 2010, dated 12/01/2010, due 08/01/2016

Long Term Rating

A+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating, and stable outlook, to Woodville, Texas' series 2010 general obligation (GO) refunding bonds.

The rating reflects our opinion of the city's:

- Very strong financial position, indicated by general fund reserves that exceed one year's worth of operations;
- Consistent property tax base growth despite a less than 0.5% decline in assessed value (AV) in fiscal 2011; and
- Low debt burden with limited additional debt-supported capital needs.

The rating is constrained by our opinion of the city's:

- Shallow property tax base, which is moderately concentrated;
- Relatively limited economy, evidenced by adequate, but below-average, wealth and income levels; and
- Below-average debt amortization with officials planning to retire just 70% of principal over 20 years.

An ad valorem tax levied on all taxable property in the city secures the bonds. Officials plan to use bond proceeds to refund a portion of the city's series 1997 certificates of obligations outstanding and series 1998 GO refunding bonds outstanding, resulting in annual debt service savings.

Woodville, with a population estimate of 2,385, is in Tyler County, roughly 60 miles north of Beaumont, Texas. Despite being the county seat and principal commercial center of the area, Woodville's economy is relatively limited. The timber industry, Wal-Mart Store Inc., and

Woodville Independent School District are the leading local employers. Reflecting the nature of employment opportunities available to residents, median household income levels were a low 64% of the 2009 national level. Market value, a wealth indicator, is an adequate \$45,066 per capita.

The city's property tax base is relatively thin, but it has experienced stable growth. AV increased by 28% since fiscal 2007 to \$108.04 million in fiscal 2010. For fiscal 2011, however, the city has experienced a slight AV decrease to \$107.48 million. The tax base is moderately concentrated with the 10 leading taxpayers accounting for 33% of fiscal 2011 AV. The city levies a competitive property tax rate of 37.5 cents per \$100 of AV, all of which flows into the general fund. The city also levies a 1% sales tax that flows directly into the general fund. Sales tax collections increased by 63% since fiscal 2005 to \$1.1 million in fiscal 2009. Officials attribute sales tax growth over the past five years to oil and gas activity in the city. For fiscals 2010 and 2011, management is predicting a slight decrease in collections due to a slowdown in oil and gas activity.

Woodville's financial position is very strong. The city ended fiscal 2009 with an operating surplus of \$497,000 that brought the year-end unreserved general fund balance to \$1.58 million, or a very strong 101% of operating expenditures. Sales (54%), property (18%), and other (11%) taxes are the general fund's primary revenue sources. Management estimates the city ended fiscal 2010 with an increase in the year-end unreserved general fund balance to \$1.7 million.

The fiscal 2011 budget includes capital items that might require a very slight draw on general fund reserves. The city's utility system, which self-supports, in essence, all GO debt, demonstrated very strong liquidity with 1,118 days' cash on hand at fiscal year-end 2009.

Standard & Poor's deems Woodville's financial management practices "standard" under its Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Key practices include management's:

- Revenue and expenditure assumptions based on two to three years of historical data;
- Monthly budget updates to the city council; and
- Formal investment policy that it reviews annually — The city council receives quarterly updates on investment holdings.

The city lacks formal reserve and debt management policies and long-term capital and financial plans.

Including all overlapping jurisdictions, and net of self-support from the city's utility system, the city's overall debt burden is a low 1.7% of fiscal 2011 AV, or a very low \$784 per capita. Debt amortization is extended with officials planning to retire 70% of principal over 20 years and 100% by 2038. Management does not currently plan to issue additional debt within the next 12-18 months.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city will likely sustain its current reserves, which is key to rating stability. It is also our expectation that Woodville's limited capital needs will likely allow the debt burden to remain low.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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