

City of Nederland, Texas

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Credit Profile

US\$10.515 mil General Obligation Refunding Bonds, Series 2010 dated 08/15/2010, due 09/01/2019

Long Term Rating	AA-/Stable	New
Outstanding General Obligation Bonds, Series 2008 (ASSURED GTY)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Outstanding Tax and Subordinate Lien Revenue Certificates of Obligation and General Obligation Refunding Bonds, Series 1996, 2002, 2003		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) to 'AA-' from 'A+' on Nederland, Texas' existing debt due to the city's historically very strong financial position and rapid amortization schedule. At the same time, Standard & Poor's assigned its 'AA-' long-term rating to the city's series 2010 general obligation (GO) bonds. The outlook is stable.

The rating reflects our view of the city's:

- Participation in the Beaumont-Port Arthur MSA economy, boosting income levels;
- Strong financial position with healthy reserves; and
- Limited capital needs.

These factors are partly offset by the overlapping county's high unemployment.

An unlimited ad valorem tax on all taxable property in the city secures the bonds. City officials will use bond proceeds refund a portion of the city's existing debt.

The City of Nederland (population 17,158) is located in the southeast corner of the state in Jefferson County (AA-/Stable), midway between Beaumont (AA-/Stable) and Port Arthur (A/Stable). The city is served by a regional airport and has rail access to all parts of the country. Major employers are Nederland Independent School District (674 employees), Equistar chemical (275), Philpott Motors (215), Time Warner (132), and City of Nederland

(104). Median income levels have increased to a good 103% in 2009 from 88% in 2005 due to continued economic development in the region. The regional economic base has long had a strong link with the oil and gas industry. The local employment base now includes a growing service industry and a significant concentration of correctional facilities to complement the petrochemical industry, which still continues to grow at a steady pace. Unemployment through May 2010 is high at 10.9%. The city's diverse property tax base has been experiencing steady growth; assessed value (AV) has increased by a 7% annual average since fiscal 2005 to \$918 million for fiscal 2010.

Nederland's financial position remains very strong. The city has posted general fund reserve levels equal to at least 66% of operations from fiscal 2000-2009 with the exception of fiscal 2008 consecutive years. Officials posted fiscal 2009 unreserved general fund balance of \$5.6 million of 72% of operations. Sales tax (37%) and property tax (35%) are major general fund revenue sources. The city's other taxes mostly consist of payment in lieu of taxes (PILOTS) in association with contractual arrangements with three industries totaling \$839,559 in fiscal 2009. Two contracts expire in December 2010 while another expires in December 2016. The city projects a payment of \$940,849 from PILOTS in fiscal 2010. Sales tax revenue has increased at a 12% average annual rate since fiscal 2007. Officials conservatively budgeted for roughly flat sales tax growth for fiscal 2010 and sales tax revenues are trending in-line with the budget. The city has adopted a breakeven budget for fiscal 2010 and project similar results for fiscal 2011. The city's direct property tax rate is 58 cents per \$100 of AV, while total tax rate including overlapping tax rate is \$2.34 per \$100 of AV in fiscal 2010.

Nederland's management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA) methodology, indicating practices are deemed currently good but not comprehensive. While the city does not have a formal general fund reserve policy, its goal is to maintain at least three months' operations in reserve. Revenue and expenditures estimates are calculated using historical property tax revenue receipts, AV growth, sales tax trends, and personnel costs. Budget amendments are performed as needed to address expenditure reclassifications and additional expenses, and the board approves budget amendments based on management's recommendation. In addition, the city performs informal multi-year forecasts that are reviewed with the board annually. Management has a formal investment policy in which investment results are monitored at least quarterly and are reported to the board on a similar basis. The council, staff, and auditor also review the investment policy annually. The city has a formal five-year capital improvement plan but no formal debt management policy.

After factoring in support from the water and sewer system, overall net debt levels remain moderate at 3.1% of market value and low on a per capita basis at \$1,663. Given the city's limited major capital needs, city officials do not expect to issue additional debt in the next 12 months. Carrying charges are elevated at 22% due to city's rapid amortization schedule. Amortization of the city's total debt outstanding is faster than average with 100% of principal due to be retired by 2023.

Outlook

The stable outlook reflects our expectation that the city will maintain its good financial reserves through conservative budgeting, including sales tax projections. It is also based on the expectation that the city's capital needs will remain limited, especially after recently completing a major GO-funded water and sewer system project, allowing the city's debt burden to remain near low to moderate levels.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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