

## **FITCH AFFIRMS HARLINGEN, TEXAS'S GOS & COS AT 'A+'; OUTLOOK STABLE**

Fitch Ratings-New York-05 October 2009: As part of routine surveillance, Fitch Ratings has affirmed the 'A+' rating on \$23.3 million in outstanding general obligation (GO) bonds and \$23.3 million in outstanding combination tax and revenue certificates of obligation (COs) issued by the City of Harlingen, Texas (the city). The Rating Outlook is Stable.

The bonds and certificates are direct obligations of the city, payable from a continuing ad valorem tax levy, limited to \$2.50 per \$100 of taxable assessed valuation (TAV). The certificates are additionally secured by surplus net revenues derived from the operation of the municipal golf course. The city currently levies \$0.153 per \$100 of taxable value for debt service and \$0.436 per \$100 for operations. The city's debt service structure will enable a flat debt service tax rate through final maturity, assuming constant to ascending TAV.

The 'A+' rating reflects the city's stable financial history and healthy fund balances, an increasingly diversified economic base with unemployment levels below the national average, and a moderate debt burden and manageable additional borrowing plans. The rating further incorporates the general fund's considerable dependence on economically sensitive sales tax revenues, which have shown good resiliency to date despite the lingering recession, and a socio-economic profile typical of border communities with below-average income indicators and high incidence of poverty. Fitch considers the maintenance of healthy reserves and financial flexibility a key rating driver, given the city's exposure to volatile sales tax activity, as well as the city's proximity to the Gulf of Mexico and exposure to potential storms.

The city closed fiscal 2008 with a modest net deficit which lowered the unreserved fund balance to \$11 million or a still-healthy 33% of spending. In addition, the city carried approximately \$3.7 million in unrestricted reserves in other funds that could be used to support general government spending, if necessary. The city is projecting a general fund net deficit totaling approximately \$570 thousand in fiscal 2009, which would lower the unreserved general fund balance to slightly less than 30% of spending. The fiscal 2010 budget has been formally adopted and appropriates \$935 thousand of reserves. According to the city, the general fund remains structurally balanced, as the use of fund balance is to support pay-go capital projects.

The general fund receives approximately 45% of its revenues from a 1.5% sales and use tax. Sales tax revenues have grown consistently, at a compound annual growth rate (CAGR) of 4.2% from fiscal 1999 to fiscal 2008. According to the city sales tax revenues were up 2.8% in fiscal 2009, in sharp contrast to several neighboring cities with economies more dependent on border trade and the valuation of the peso. Property taxes account for approximately 30% of total revenues. The tax base is well diversified and has grown at a CAGR of 5.7% since fiscal 2005 to \$2.67 billion in fiscal 2010.

The area economy has long been linked to the agriculture, tourism, trade, and manufacturing sectors. Wealth levels are well below-average compared to the state, but in line with those of other border communities. The area's very low cost of living further offsets this risk. However, the local economy continues to diversify, aided by the city's economic development incentive programs and an extensive transportation network that includes the city-owned and operated Valley International Airport. The city is slowly positioning itself as a regional healthcare hub. The Regional Academic Health Center, a branch of the University of Texas-San Antonio Health Science Center, has brought a nationally recognized institute of health science education and research to the Valley. The South Texas Veterans Administration Health Care Center at Harlingen was recently completed, and a \$40 million surgical clinic to supplement the center is under construction and scheduled to open in October 2010. Several large retail projects are in various stage of development, and corporations like United Launch Alliance (a joint venture between Boeing and Lockheed Martin), Dish Network, Aloe Laboratories, and Penske Logistics have recently located or expanded within the city. Fitch

views these developments favorably, as they should promote stability and attract higher quality jobs to the region. Unemployment has risen over the prior 12 months but at 9% in July 2009 is lower than the national average.

The city's direct debt burden remains low though overall debt is more moderate at 4.2% of taxable value and \$1,646 per capita. The city does not contemplate the issuance of additional general obligation or certificate indebtedness but may issue up to \$32 million in debt over the next six to 12 months secured by sales tax or tax increment revenues.

Contact: Michael Rinaldi +1-212-908-0833, New York or Gabriela Gutierrez +1-512-215-3731, Austin.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: [cindy.stoller@fitchratings.com](mailto:cindy.stoller@fitchratings.com).

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '[WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM)'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.