

### Summary:

## Palmer, Texas; Appropriations

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### Credit Profile

US\$1.54 mil GO rfdg bnds ser 2009 dtd 11/15/2009 due 07/01/2035

Long Term Rating

A-/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating and stable outlook to Palmer, Texas' series 2009 general obligation (GO) refunding bonds.

The rating reflects the city's:

- Limited economic base;
- Very strong general fund reserves, although low on a nominal basis;
- Moderate overall net debt burden; and
- Significant capital needs ahead that have not yet been fully identified.

The city's full faith and credit pledge secures the bonds. City officials will use bond proceeds to refund a portion of debt outstanding for savings purposes.

Palmer, with a population estimate of 2,050, is 28 miles south of Dallas, Texas, along Interstate 45. The city's economic base is primarily driven by agriculture and the majority of citizens commute to the Dallas-Fort Worth MSA for employment opportunities. The fiscal 2010 taxable assessed value (AV) of \$61.3 million represents a 0.8% decrease from fiscal 2009's AV of \$61.8 million. The decrease in AV is attributed to a decline in the property value for several foreclosed properties within the city. Prior to fiscal 2010, the taxable AV exhibited a 5% average annual increase during the prior three years. The property tax base is diverse, with the 10 leading taxpayers accounting for 15% of AV. Sun Development L.P., the leading taxpayer, a fuel center and convenience store, accounts for 2% of total AV. City median household income is a good 97% and 93% of state and national levels, respectively. A low market value per capita at \$29,906 and per capita retail sales at 22% of the national level reflect the city's limited economic base.

The city has maintained very strong reserves during the past three fiscal years, ranging from 35% to 50% of expenditures. The \$647,000 unreserved, undesignated general fund balance accounted for a very strong 50% of expenditures in fiscal 2008. Leading general fund revenues were fines and forfeitures (55%) and property taxes (25%) taxes for fiscal 2008. Unaudited fiscal 2009 results indicate the city will draw down its reserves by \$73,000 due to a one-time capital project. The current property tax rate of roughly 63 cents per \$100 of AV -- 24 cents for operations and 39 cents for debt service -- is comparable with surrounding cities in the area. The city's fiscal 2010 budget reflects utilization of its general fund balance and reducing its reserves to three to four months of expenditures.

Standard & Poor's deems Palmer's management practices 'standard' under its Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in most, but not all, key areas.

Key practices include management's:

- Conservative revenue and expenditure assumptions based on historical trend analysis;
- Investment portfolio that is compliant with the Texas Public Funds Investment Act;
- Monthly financial reporting to the city council, which can adjust the budget, if necessary; and
- General fund reserve goal of two to three months' expenditures.

After this issuance, the overall net debt burden is a moderate 6.2% of taxable AV. Carrying charges are also moderate, with debt service accounting for 11% of total general government expenditures. Amortization is average, with officials retiring 80% of debt in 10 years and all debt retired by 2035. The city has significant and not fully identified capital needs and because of its limited tax base, this could result in a significant increase in the debt burden or utilization of reserves. The city's utility system is in violation of the Texas Commission of Environmental Quality (TCEQ) requirements and the city has overflow and capacity issues that will be addressed with available reserves or additional debt in the near term. City officials are considering issuing certificates of obligations in fiscal 2010 for street and utility drainage improvements.

## Outlook

The stable outlook reflects our expectation that management will continue to maintain strong reserves, despite the pressure on the general fund to pay for capital projects. In addition, the stable outlook reflects our expectation that the city will work to identify alternative funding sources for capital projects. Additional formalized financial management policies would provide more financial oversight and credit support.

## Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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