

Fitch Upgrades La Porte TX's GOs and COs to 'AA'; Outlook Stable

Written by Australian Business

AUSTIN, Texas--([BUSINESS WIRE](#))--Fitch Ratings has upgraded its rating on the following City of La Porte, Texas (the city) bonds to 'AA' from 'AA-':

-- \$3.7 million outstanding general obligation (GO) bonds, series 2005 and 2006;

-- \$13.3 million outstanding combination tax and revenue certificates of obligation (COs), series 2004, 2005, 2006, and 2007;

-- \$1.4 million outstanding limited tax bonds, series 2002

The Rating Outlook is Stable.

SECURITY:

The GO bonds, limited tax bonds, and COs are secured by an ad valorem tax levied on all taxable property within the city, limited to \$2.50 per \$100 taxable assessed valuation (TAV). The COs are additionally secured from a limited pledge of the net revenues of the city's waterworks and sewer system.

KEY RATING DRIVERS:

SOLID FINANCIAL PERFORMANCE: The rating upgrade reflects the city's ability to maintain its solid financial reserves through conservative management and a resilient economy.

SIGNIFICANT INDUSTRIAL CONTRACT REVENUE: The economic base is highly

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concentrated in the petrochemical industry, although the regional diversity in upstream and downstream oil and gas production provides a hedge against oil and gas price volatility.

MANAGEABLE DEBT BURDEN: Overall debt levels have declined with a lack of recent debt issuance. The city's direct debt amortizes rapidly and the city's capital improvement plan (CIP) is very manageable. Fitch believes direct debt will remain manageable with the city's conservative approach to issue new debt as existing debt rolls off.

MODEST TAX BASE DECLINE: The city experienced a decline in TAV in fiscal 2011 that was much less pronounced than the previously expected 19% dip. The tax base quickly resumed growth in fiscal 2012 and losses were completely restored by fiscal 2013.

ADVANTAGEOUS LOCATION: Long-term economic prospects are favorable, with the city benefitting from its location within the broad and diverse economy and employment base of the Houston metro area and its proximity to the Port of Houston which ranks second among all U.S. ports in terms of total tonnage.

RATING SENSITIVITY

MAINTENANCE OF STRONG FINANCIAL POSITION: The rating is sensitive to shifts in fundamental credit factors. Preservation of the city's solid financial profile and adherence to its 90-120-day general fund balance target is a key consideration given the tax base concentration. The Stable Outlook reflects Fitch's view that shifts in fundamental credit factors are unlikely over the near term.

CREDIT PROFILE:

The city is located southeast of Houston, with portions lying along the Houston Ship Channel, Galveston Bay, and the Bayport Channel. With a 2012 population of nearly 34,500, the city is characterized by a combination of petrochemical industries and

residential development. The post-recession recovery of Houston's regional economy continues to outpace that of many other large U.S. cities as a robust energy sector that is well diversified with both upstream and downstream production, and a leading contributor to a generally resilient economic environment.

STRONG FINANCIAL PROFILE

Financial performance has been very strong as evidenced by consistently high unrestricted general fund reserves equal to 68% in fiscal (September 30) 2012. The fiscal 2011 and 2012 results were boosted by non-recurring land sales that generated about \$8.8 million in revenues. The city has conservatively utilized non-recurring revenues for pay-go capital spending. Over the last five fiscal years, the city transferred out over \$20 million for capital projects while maintaining constant general fund reserves net of non-recurring revenue from land sales.

For fiscal 2013, management conservatively adopted a budget with a \$1.3 million deficit, but expects to close the year with a modest \$1.4 million surplus due to higher than budgeted revenues and lower spending. The fiscal 2014 budget assumes a \$3 million general fund balance drawdown for capital outlays.

INDUSTRIAL DISTRICT CONTRACT-REVENUE RELIANCE

Industrial district fees or payments in lieu of taxes (PILOTs) historically have generated over 30% of general fund revenues. The contracts are executed for rolling seven-year periods. Starting in fiscal 2009, the PILOTs were increased to 62% of TAV from 52% of TAV, generating about an additional \$2 million annually. These are due to increase to 63% of TAV in fiscal 2015 and are expected to generate roughly \$200,000 in additional revenue.

These contracts represent mutual agreements by and between the city and industrial entities located outside of the city limits but within the city's extra-territorial jurisdiction. The companies agree to pay for a portion of what would be taxed if the land was annexed by the city in exchange for the city's agreement not to annex the area. Under these agreements, the city is obligated to provide limited services in the area.

Currently, 140 companies participate in industrial district contracts; this is a notable 19% increase from the 118 contracts in fiscal 2010. These contracts have served as a valuable economic development tool for more than 50 years.

FAVORABLE LOCAL ECONOMIC INDICATORS

The local economy benefits from the large and diverse Houston metro. Since it is located along the Houston Ship Channel (Port of Houston Authority ULTGOs rated 'AAA' by Fitch), Galveston Bay, and the Bayport Channel, the city's economy is highly concentrated in the oil, gas, and petrochemical industries. The expansion of the Panama Canal that is underway is bringing along some large warehousing and distribution facilities.

Unemployment rates are typically only slightly above the MSA and below national averages, and wealth levels are high at 126% of the county and nation. Compound average annual population growth at 0.6% from the 2000 to 2010 census is notably below that of the state of roughly 2%, and MSA's 2.3%, indicative of the strong industrial presence in the city.

Top ten taxpayer concentration is high at 17% and this would likely be higher if the city annexed the industrial district.

TAV DECLINES MORE MODEST THAN EXPECTED

The city's TAV, which was increasing at a healthy clip through fiscal 2010, declined 5% in fiscal 2011, far less than projected, and quickly resumed growth by fiscal 2012. By fiscal 2013, the TAV losses were completely restored and overall growth resumed. Fitch views this quick recovery as a positive indicator of the local economy's resiliency due to its integral part in the overall operations of the port of Houston.

MANAGEABLE DEBT AND PENSION BURDEN

The city's overall debt levels are on the high side of the moderate range, but debt

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amortizes at a fairly brisk pace. Debt carrying costs are manageable and are expected to remain so given the city's limited capital needs coupled with the city's practice of meeting general infrastructure needs with available reserves over the last five fiscal years. Management plans to issue new debt as existing debt matures in order to maintain its manageable debt load.

The city provides pension benefits through the Texas Municipal Retirement System (TMRS). Funding levels have improved markedly from a funded ratio of 66% in 2009 to 84% in 2012. This improvement is due in part to a statewide accounting restructuring of the system's available funds. The city budgeted to fund 100% of its annual actuarially required contribution (ARC) rate for fiscal 2013 and plans to fully fund its contribution going forward.

Additional information is available at 'www.fitchratings.com'

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, Texas Municipal Advisory Council, and IHS Global Insight.

Applicable Criteria and Related Research:

-- 'Tax-Supported Rating Criteria', dated Aug. 14, 2012;

-- 'U.S. Local Government Tax-Supported Rating Criteria', dated Aug. 14, 2012.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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