STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Palestine, Texas; General Obligation

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Credit Profile		
Palestine GO		
Long Term Rating	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' rating, with a stable outlook, on Palestine, Texas' general obligation (GO) debt.

A continuing and direct annual ad valorem tax levied within the limits prescribed by law, on all taxable property in the city, secures the bonds.

The rating reflects our opinion of the following factors for the city:

- We consider Palestine's local economy very weak with projected per capita effective buying income at 85% of the national average. Market value is roughly $49,800 per capita. Palestine is the seat of Anderson County, and the city serves as a retail and medical hub for the county and surrounding areas. According to the U.S. Bureau of Labor Statistics, county unemployment was 7.2% in 2013, above the state's 6.3% and below the nation's 7.4%.
- In our opinion, budgetary flexibility is very strong. Available reserves were below 15% of expenditures for the past three fiscal years. Palestine ended fiscal 2013 with a general fund surplus that increased available reserves to $2.3 million, or 18.6% of operating expenditures from 14.5% in fiscal 2012. According to unaudited projections and budgeted figures, we expect reserves to remain equal to or greater than $2.3 million for the next two fiscal years.
- In our view, overall budgetary performance is strong with surpluses of 6.5% across all total governmental funds and 3.8% for the general fund in fiscal 2013, net of utility transfers. Estimated fiscal 2014 results reflect a 1.8% general fund surplus and a 6.5% total governmental funds operating surplus. For fiscal 2015, Palestine has adopted a balanced general fund budget.
- In our view, very strong liquidity supports Palestine's finances with available cash of 28% of total governmental fund expenditures and 4.8x debt service coverage. Based on past debt issuance, we believe Palestine has strong access to capital markets to provide liquidity, if necessary.
- In our opinion, Palestine's management conditions are adequate with "standard" financial management practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Highlights include management's formal written investment policy and monthly reports on financial performance to the governing body; the governing body can amend the budget as needed. Palestine does not currently have a formal adopted reserve policy; management's informal goal, however, is to maintain reserves equal to at least 25% of operations, which it has not been able to do since fiscal 2008. In addition, the city lacks a debt policy and a long-term financial and capital plan.
- In our view, Palestine's debt and contingent liability profile is strong. Debt service is 5.9% of total governmental fund expenditures, and net direct debt is 60.6% of total governmental fund revenue. Officials plan to retire approximately 77% of principal debt over 10 years; we consider this a credit strength. Palestine participates in the Texas Municipal Retirement System. As of Dec. 31, 2013, the plan was 76.1% funded. The city has contributed

100% of the annual required contribution (ARC) in each of the past three fiscal years. Palestine also participates in the Texas Municipal Retirement System Supplemental Death Benefits Fund for other postemployment benefits (OPEB). The combined pension ARC and OPEB pay-as-you-go cost for fiscal 2013 was about 8% of expenditures, and we do not expect these costs to increase substantially over the next few fiscal years.
- We consider the Institutional Framework score for Texas cities and counties strong.

Outlook

The stable outlook reflects Standard & Poor's opinion that Palestine will likely maintain its very strong budgetary flexibility and liquidity, supported by strong budgetary performance. If Palestine were to exhibit a longer trend of maintaining very strong budgetary flexibility, coupled with an expansion in economic growth that could improve income, we could raise the rating. While we do not view it as likely to occur within the two-year outlook period, if the city's debt profile were to deteriorate significantly, coupled with weakened budgetary performance, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

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