FitchRatings

FITCH UPGRADES SOUTH WEBER, UT'S SALES TAX REVS TO 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-20 May 2011: In the course of routine surveillance, Fitch Ratings takes the following action on the City of South Weber, Utah (the city):

--Approximately $1.4 million sales tax revenue bonds, series 2004 upgraded to 'AA-' from 'A+'.

In addition, Fitch assigns an implied general obligation (GO) rating of 'AA-'.

The Rating Outlook is Stable.

RATING RATIONALE:
--The upgrade to 'AA-' on the sales tax revenue bonds reflects the very strong coverage of maximum annual debt service (MADS) despite significant deterioration of pledged revenues during the recession. In Fitch's view, risk to over-leveraging is minimal, given a strong additional bonds test (ABT), the absence of additional borrowing plans or significant capital needs, and the city's reliance on surplus sales tax revenue to fund general government operations.
--Fitch assigns an implied GO rating of 'AA-' based on the city's healthy reserves and history of stable and structurally balanced operating results, low debt levels and minimal future capital needs.
--In addition, pension liabilities are limited and affordable, and the city does not provide post-employment healthcare benefits or OPEB.
--Unemployment remains low relative to the state and nation despite continued job loss, and income indicators are above average relative to the state.
--Credit risks center on the general fund's dependence on economically volatile revenue streams, and the city's relatively low level of economic diversification, which is partially mitigated by its proximity to larger and relative stable regional markets in Ogden and Salt Lake City.

KEY RATING DRIVERS:
--Material leveraging not anticipated by Fitch;
--Stability in the role served by the Hill Air Force Base in the U.S. Department of Defense.

SECURITY:
The bonds are special and limited obligations of the city, payable solely from revenues of the city's 1% sales and use tax. The sales tax is levied by the city pursuant to state code. The bonds are additionally secured by a cash-funded debt service reserve fund (DSRF) equal to MADS. The ABT requires 2.0 times (x) coverage of proposed MADS from historical pledged revenues.

CREDIT SUMMARY:
South Weber City is located in Davis County, approximately 35 miles north of the state capital in Salt Lake City (GOs rated 'AAA' by Fitch). The city covers a small area of approximately 4.6 square miles, and has a 2010 population of 6,051. South Weber City largely serves as a bedroom community for commuters employed in Salt Lake City and at Hill Air Force Base (AFB). Hill AFB, which is located just five miles west of the city, is the major regional economic driver, responsible for nearly 50,000 direct and indirect jobs according to estimates for 2009 from the University of Utah's Bureau of Economic and Business Research. The base performs worldwide engineering, sustainment and logistics management and maintenance support for some of the Air Force's most sophisticated weapon systems. The city experienced very strong population growth prior to the recession, driven by its proximity to local labor markets and infrastructure, including the Salt Lake International Airport, and available land for development. Recent permit activity suggests a mild recovery in building activity. The unemployment rate in Davis County remains well below the nation at 6.9% in March; however, the job base continues to decline (0.6% loss year-over-year, as of March), and total employment remains 4% below peak 2007 levels. The city's wealth levels are above average relative to the state, but lower than the nation on a per capita basis, reflecting its

younger demographic profile.

The state's sales tax distribution formula largely mitigates risk to economic concentration at the local level. South Weber keeps 50% of locally generated revenues, and the other portion is pooled at the state level. The state pool is then disbursed back to cities based on their populations as a proportion of the state-wide population. The state-wide component makes up approximately 90% of the city's sales tax revenues. Nonetheless, pledged revenues have fallen sharply, by 33% since fiscal 2007 including a 10% drop in fiscal 2010. Collections have stabilized in fiscal 2011, with the city forecasting a decline of 1% from the year prior. Risk to revenue volatility is mitigated by the continued strong coverage of MADS at 3.95x in fiscal 2010. Coverage of current MADS would remain comfortably above 1.0x assuming a decline in pledged revenue equal to two times the actual loss incurred from fiscal 2007-2010. The city has no plans to issue additional sales tax revenue bonds.

Financial resources remain sound, with the fiscal 2010 general fund unreserved fund balance totaling $273,313 or 19% of spending. State code establishes a limit on general fund balance equal to 18% of total estimated revenue of the ensuing budget year. An additional unreserved fund balance totaling $207,305 is reported in the capital projects fund that could be used for operations, if necessary. Operating revenues are down more than 20% or $425,000 from fiscal 2007 to 2010, reflecting a decline in interest income in addition to economically sensitive sales tax, licenses, and permits. Sales tax revenues fund approximately 30% of the general fund budget, with property and franchise taxes each contributing 18% to 20%. Accurate revenue forecasting combined with a 31% reduction in total spending since fiscal 2007 have mitigated the impact of the declining revenue base on the city's overall financial profile. Spending reductions have targeted pay-as-you-go capital funding, which had been lowered to less than $80,000 in fiscal 2010 from $700,000 in fiscal 2007. The city adopted a balanced budget for fiscal 2011 that reduces spending by less than 1% from the year prior. Management reports the fiscal 2011 budget is performing well, with a slight increase in reserves anticipated at year end. The fiscal 2012 budget, which will not be adopted until June, is expected to closely resemble the current year plan, and does not reflect the use of existing reserves.

Overall debt levels remain low at approximately $1,460 per capita and 2.7% of market value, and are primarily driven by obligations of overlapping entities. The city has no tax-supported debt outstanding other than the $1.4 million in series 2004 sales tax revenue bonds. Debt service charges on the series 2004 sales tax bonds are manageable at less than 8% of the general fund budget. Capital needs are minimal and the city does not plan to issue additional debt in the foreseeable future. The city does not have exposure to variable-rate debt, derivatives, or short-term debt. Pension liabilities are limited to the city's annual contribution to the Utah Retirement System and a 401(k) defined contribution plan, with fiscal 2010 contributions equivalent to 5.4% of spending. The city does not provide post-employment healthcare or OPEB.

Contact:

Primary Analyst
Michael Rinaldi
Senior Director
+1-212-908-0833
Fitch Inc.
One State Street
New York, N.Y. 10004

Secondary Analyst
Alan Gibson
Director
+1-415-732-7577

Committee Chairperson
Kathryn Masterson
Senior Director
+1-415-732-5622

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

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

In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, IHS Global Insight, and Property and Portfolio Research.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 16, 2010.
--'U.S. Local Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564566