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Strong economy, financial policies contribute to upgraded debt rating

Standard & Poor's Rating Services upgraded the long term debt rating for Bexar County from AA+ to AAA, the rating agency's highest level. The upgrade from S&P, which was based on the County's strong economy, strong management and financial policies, and other factors, will result in lower borrowing costs and taxpayer savings on future debt issuances.

"This is proof that the financial policies this Commissioners Court put in place have paid off for the taxpayers and for the County," Commissioner Paul Elizondo said. "And we accomplished this while lowering the County's property tax rate over the past 20 years, including this current fiscal year."

The announcement (attached) stated the upgrade is "due primarily to our view of the County's consistent trend of improved budgetary performance," and the diversity of the region's economic base. The report noted that the County's economy has grown from relying heavily on the military and tourism sectors to including growing medical and biomedical, finance, and oil and gas industries. The report noted the County's tax base has grown steadily since 2012, with an average increase in assessed value of 4 percent.

S&P's report also points out that Bexar County has "very strong" county management and "strong" financial policies and practices that are sustainable. Those policies and practices include conservative estimates based on analysis of historical trends, and making budget assumptions based on economic studies. Bexar County's budget office also produces long-range financial outlooks, capital plans and monthly budget reports.

"Commissioners Court's sound fiscal policies helped us weather the economic downturn the past few years and put us in a position to really grow as the economy turned around," County Judge Nelson Wolff said. "We will continue to look for efficiencies and innovations that will only keep our financial outlook strong."

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STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:
Bexar County, Texas; General Obligation

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Summary:

Bexar County, Texas; General Obligation

Credit Profile		
US$31.425 mil Pass-Through Rev & and Ltd Tax Bnds (1604 East Project) ser 2015B dtd 05/01/2015 due 06/15/2045		
Long Term Rating	AAA/Stable	New
US$18.615 mil Pass-Through Rev & and Ltd Tax Bnds (Fm 471 Project) ser 2015A dtd 05/01/2015 due 06/15/2045		
Long Term Rating	AAA/Stable	New
Bexar Cnty GO		
Long Term Rating	AAA/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AAA' from 'AA+' on Bexar County, Texas' general obligation debt outstanding. The outlook is stable. The upgrade is due primarily to our view of the county's consistent trend of improved budgetary performance and of the continued growth in and diversification of the county's economic base. At the same time, Standard & Poor's assigned its 'AAA' long-term rating to the county's series 2015A and series 2015B pass-through revenue and limited-tax bonds.

The county's levy of a direct and continuing ad valorem tax, within the limits prescribed by law, and revenue from a pass-through toll agreement with the Texas Department of Transportation (TxDOT) secure the series 2015A and 2015B pass-through revenue and limited-tax bonds. Although we do not initially consider this debt self-supporting, we will once the related project is complete and the county starts to receive revenue from TxDOT for at least three fiscal years.

The ratings reflect our opinion of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies;
- Strong budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash of 37.5% of total governmental fund expenditures and 1.9x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges of 20.2% and net direct debt that is 291.5% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Bexar County's economy strong. Bexar County, with an estimated population of 1.9 million, is located in the San Antonio-New Braunfels, Texas MSA, which we consider to be broad and diverse. The county also benefits, in our view, from a stabilizing institutional influence. The county has a projected per capita effective buying income of 91.5% of the U.S. level and per capita market value of $60,433. Overall, the county's market value grew by 0.5% over the past year to $112.2 billion in 2015. The county unemployment rate was 4.6% in 2014.

The major military installations in the county continue to provide a stabilizing presence for the economy. Tourism also thrives in the county, with attractions (such as the San Antonio Riverwalk) that draw millions of visitors each year. The growing presence of medical and biomedical companies has helped to diversify the area economy, which was historically anchored primarily by the military and tourism sectors. According to the county, the medical and biomedical industry is now the county's leading economic generator, with an estimated economic impact of more than $29 billion. County officials report that the finance industry has become an important component of the county's economy as well, with an annual impact of roughly $21 billion. Eight financial institutions are headquartered in San Antonio, as are four regional headquarters. In addition, Toyota Motor Corp. operates a truck manufacturing facility in San Antonio with about 2,900 employees. In recent years, oil and gas activities in the Eagle Ford Shale have added a significant number of jobs and helped stimulated the county's economy. With oil prices dropping, activities have slowed; however, county officials report that they have no concerns at this point with the large related taxpayers and employers.

The county's tax base has increased steadily since fiscal 2012 with assessed value (AV) increasing by an average average rate of about 4% to reach its current level. County officials report that, given a significant amount of new construction and an active revaluation process of existing properties, continued tax base growth is expected.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

County management has a comprehensive set of financial policies that include budget assumptions based on external economic studies and a conservative estimation of historical trend analysis. In addition, management develops long-range financial and capital plans, and provides monthly budget reports to the commissioner's court. The county's formal general fund balance policy requires the maintenance of general fund reserves of at least 10% of expenditures. In addition, the county has a formally adopted debt management policy.

Strong budgetary performance

Bexar County's budgetary performance is strong in our opinion, with operating surpluses of 5.6% in the general fund and 10.9% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

Our calculations include adjustments for nonrecurring expenditures such as the spending-down of bond proceeds and other large one-time items. Net of those adjustments, the county's financial performance has been stable and the county has demonstrated a trend of operational balance. The county's general fund revenues are derived primarily from property tax collections (72% of fiscal 2014 general fund revenues). Property tax collections remain healthy, with annual collections exceeding 98% for the past 10 years. The county's limited tax rate includes 24.4737 levied for maintenance and operations and 3.9084 cents dedicated for debt service, for a combined rate of 28.3821 cents per

$100 of AV. The county's rate is well below the state cap of 80 cents per $100 of AV. From the county's additional authorization, the county also levies 3.0679 cents on its flood control special tax, which is discussed in further detail regarding the county's debt and contingent liabilities profile. At the end of fiscal 2014, the county had negative unrestricted assets of about $383 million in governmental activities. However, this is due to the way to county partners with the city of San Antonio for joint projects, wherein the county assumes the liability but then transfers the asset and the city then assumes responsibility for maintenance of the asset going forward, and in time, the booked liability is reduced. For fiscal 2015, the county projected a deficit of about 2% in the general fund and net of nonrecurring expenditures the total governmental budget included a surplus. County officials report that the budget is trending positively for the year so far, and they expect to end about $13 million better than initially budgeted. Fiscal 2014 performance was at a very strong level, while fiscal 2015 is projected to be strong. Based on this information and the county's historical trend of conservative budgeting, we expect the county's budgetary performance to remain at least strong.

Very strong budgetary flexibility

Bexar County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 23% of operating expenditures, or $75.4 million.

For fiscal 2015, the county budgeted for an ending available general fund balance of about $60.2 million, or about 17% of expenditures. However, county officials report that, based on year-to-date information, the county's fund balance will likely be about $73.5 million, if not higher. County officials have no plans to draw down below the county's formalized 10% reserve policy.

Very strong liquidity

In our opinion, Bexar County's liquidity is very strong, with total government available cash of 37.5% of total governmental fund expenditures and 1.9x governmental debt service in 2014. In our view, the county has exceptional access to external liquidity if necessary.

Very weak debt and contingent liability profile

In our view, Bexar County's debt and contingent liability profile is very weak. Total governmental fund debt service is 20.2% of total governmental fund expenditures, and net direct debt is 291.5% of total governmental fund revenue.

While the county's debt burden has been adjusted to reflect a portion of the debt we consider to be self-supporting, the county has a substantial amount of debt outstanding that our criteria does not consider to be from a self-supporting source, but is in fact supported by additional revenues. The county levies a flood control tax that supports more than $300 million of its outstanding debt. The county's ad valorem tax levy under its Flood Control Bond Order authorizes the 15-cent flood control tax rate (of which the county levies 3.0679 cents). Given that this is a property tax pledge, we do not in fact consider this to be self-supporting; however, the county does use this additional levy (over and above its traditional ad valorem rate) to provide payment for its debt. In addition, the county has a significant amount of debt that it pays from revenues collected from one-quarter of a one-quarter-cent sales tax collected by the Advanced Transportation District, as well as several pass-through toll revenue financed road projects which will be reimbursed through the state. We do not consider sales tax debt to be self-supporting. We have given credit for self-support for the pass-through toll revenue bond projects where at least three years of payment from the state is evidenced in the audited financial statements; however, there are several additional issuances that do not have that payment history yet and therefore have not been offset through self-support. In our opinion, the debt burden is likely to decline as reimbursements continue to flow in from the state.

Bexar County's combined pension and other postemployment benefits (OPEBs) contributions totaled 6.8% of total governmental fund expenditures in 2014. Of that amount, 6.0% represented contributions to pension obligations and 0.8% represented OPEB payments. The county made its full annual required pension contribution in 2014.

The county participates in the Texas County & District Retirement System to provide pension benefits for employees. The county offers a postemployment health care plan for full-time regular employees.

Strong institutional framework

The institutional framework score for Texas counties is strong. See the institutional framework score for Texas.

Outlook

The stable outlook reflects our expectation that the county will continue to maintain its very strong reserves and that, although the debt and contingent liabilities profile will remain very weak, a significant portion of its direct debt will be paid for through sources the county considers to be self-supporting and state funds. While we do not expect to change the ratings within the two-year horizon of the outlook, a material reduction in the county's budgetary performance or a weakening of the key economic indicators could place downward pressure on the ratings.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

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

Ratings Detail (As Of May 8, 2015)		
Bexar Cnty ltd tax rfdg bnds		
Long Term Rating	AAA/Stable	Upgraded
Bexar Cnty pass-through rev and ltd tax rfdg bnds (Blanco Rd Proj)		
Long Term Rating	AAA/Stable	Upgraded
Bexar Cnty pass-through rev and ltd tax rfdg bnds (Culebra Rd Proj)		
Long Term Rating	AAA/Stable	Upgraded
Bexar Cnty Comb Tax & Rev Certs of Oblig ser 2014 dtd 12/15/2014 due 06/15/2044		
Long Term Rating	AAA/Stable	Upgraded
Bexar Cnty GO		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded

Ratings Detail (As Of May 8, 2015) (cont.)		
San Antonio River Auth GO		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
San Antonio River Auth, Texas		
Bexar Cnty, Texas		
San Antonio River Auth (Bexar Cnty) GO		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Long Term Rating	AAA/Stable	Upgraded

Many issues are enhanced by bond insurance.

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