S&P Global Ratings

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Summary:

Bexar County, Texas; General Obligation

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Summary:

Bexar County, Texas; General Obligation

Credit Profile		
US$193.715 mil comb tax & rev certs of oblig ser 2018 dtd 12/01/2018 due 06/15/2045		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Bexar County, Texas' series 2018 combination tax and revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the county's general obligation (GO) debt outstanding. The outlook is stable.

Bexar County's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario (see "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013 on RatingsDirect). Under our criteria, U.S. local governments are considered moderately sensitive to country risk. The county's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the county. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Bexar County has considerable financial flexibility, as demonstrated by the very high fund general balance as a percentage of expenditures as well as by very strong liquidity.

The county's unlimited tax levy secures the series 2013 and 2014 unlimited-tax refunding bonds.

The county's levy of a direct and continuing ad valorem tax, within the limits prescribed by law, secures the limited tax bonds. The maximum allowable rate in Texas is 80 cents per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to 40 cents. The county's fiscal 2019 levy is well below the maximum, at 30.1 cents, 4.1 cents of which is dedicated to debt service.

The certificates are additionally payable from a subordinate lien on and net revenue of $1,000 derived from the operation of the county's parking facilities. Given the limited nature of the pledge, we rate the certificates solely based on the limited ad valorem pledge.

The pass-through revenue and limited-tax bonds are additionally secured by revenue from a pass-through toll agreement with the Texas Department of Transportation (TxDOT). 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. We believe we have insufficient information to rate the additional revenue stream and rate the bonds solely based on the limited-tax pledge.

The county's flood control bonds are secured by revenue from a direct and continuing ad valorem flood control tax, within the limits prescribed by law. The maximum allowable rate in Texas is 30 cents per $100 of AV for farm-to-market and/or flood control. The county's fiscal 2019 levy is well below the maximum, at 2.4 cents for roads and flood control.

We rate the limited-tax bonds, certificates of obligation, flood control bonds, and pass-through and limited-tax bonds on par with our view of the county's general creditworthiness, as the taxing base supporting the obligations is coterminous with the county, and we see no unusual risks regarding the county's willingness to support the debt or the fungibility of resources.

The county will use bond proceeds to fund road projects and various other capital projects, including the construction of a new parking garage, a new public works facility, jail improvements, data center relocation, and a new radio system.

The 'AAA' rating reflects our assessment of Bexar County's:

- Very 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 and practices under our financial management assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 51.6% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges at 15.6% of expenditures and net direct debt that is 336.6% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Bexar County, with an estimated population of 1.9 million, is located in the San Antonio-New Braunfels MSA, which we consider 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 88% of the national level and per capita market value of $82,662. Overall, the county's market value grew by 6.8% over the past year to $161.1 billion in 2019. The county unemployment rate was 3.5% in 2017.

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 the finance industry, as well as medical and biomedical companies, has helped diversify the area economy, which has been historically anchored by the military and tourism sectors. According to the county, the finance industry has an annual estimated economic impact of more than $21 billion. Eight financial institutions are headquartered in San Antonio, as are four regional headquarters. The finance industry employs about 90,000 in the

San Antonio area.

The medical and biomedical industry has an economic impact of nearly $30 billion and employs about 175,000. The key components of the health care industry are three major military medical centers: the South Texas Medical Center, the Southwest Research Institute, and the Southwest Foundation for Biomedical Research.

The military has an estimated annual impact of $50 billion on the county and provides about 80,000 direct and 205,000 indirect defense-related jobs. The active military installations in Bexar County include Fort Sam Houston and Lackland and Randolph Air Force Bases. Brooke Army Medical Center is a Level 1 trauma center and the only one in the Army medical care system. The San Antonio Military Medical Center combines Level 1 trauma elements and an outpatient facility.

In addition, Toyota Motor Corp. operates a truck manufacturing facility in San Antonio with about 7,000 jobs. Toyota and its onsite suppliers have an annual economic impact of $1.7 billion.

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. Activities have slowed with the decline in oil prices a few years ago, but the activity resumed and county officials have no concerns with the largest related taxpayers and employers.

The county's tax base has increased steadily since fiscal 2012 with AV increasing by an average annual rate of about 4%. Officials expect continued tax base growth given significant construction and an active revaluation of existing properties.

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 our view that financial practices are strong, well embedded, and likely sustainable.

Bexar County's budgetary assumptions are conservative and include a multiyear trend analysis, coupled with the use of external sources of information, such as economic studies. The county also has a long-term financial model in place that forecasts revenue and expenditures.

Management provides monthly fiscal presentations to the commissioner's court that track revenue, expenditures, and investment performance.

The county also maintains a rolling multiyear capital improvement program, with identified funding sources.

A formal debt management policy that extends beyond state guidelines has been adopted that requires monthly and annual reporting and dictates, among other provisions, minimum savings on refundings and debt service fund balances as well as maximum permissible amounts of variable-rate debt.

A formal fund balance policy establishes a reserve target at 15% of general fund expenditures to provide flexibility in case of revenue shortfalls or emergencies.

Strong budgetary performance

Bexar County's budgetary performance is strong, in our opinion. The county had surplus operating results in the general fund of 1.5% of expenditures but a slight deficit result across all governmental funds of 1.0% in fiscal 2017.

Our calculations include adjustments for nonrecurring expenditures such as the spending-down of bond proceeds, as well as recurring transfers from the general fund to various governmental and enterprise funds. Net of those adjustments, the county's financial performance has been stable and it has demonstrated a trend of operational balance.

The county's general fund and total governmental fund revenue are derived primarily from property tax collections, which accounted for 74% and 63% of general fund and total governmental funds revenue, respectively. Property tax collections remain healthy, with annual collections exceeding 98% for the past 10 years. The county's limited tax rate consists of 23.63 cents levied for maintenance and operations, 4.12 cents for debt service, and 2.34 cents for roads and flood control, for a combined rate of 30.11 cents per $100 of AV. The county's rate is well below the state cap of 80 cents per $100 of AV.

At the end of fiscal 2017, the county had negative unrestricted assets of about $803 million in governmental activities. However, this was due to the county's partnership with San Antonio for joint projects whereby the county records the liability but, on completion of a project, the asset is transferred to the city and the city is responsible for its maintenance, and in time, the booked liability is reduced.

The county's fiscal 2018 adopted budget projected a $16 million (3.5%) deficit, but based on preliminary results officials expect the draw to be much smaller at about $4.5 million, or 1.0%. The draw is due to both one-time capital projects and recurring expenditures related to overtime salaries for jail personnel. The overtime salaries result from increasing jail population, while authorized staff positions were being held fairly flat. The county has authorized additional positions to reduce overtime payments as well as the cost of housing inmates outside of the county. Combined, these additional expenses totaled $6 million in fiscal 2018.

The adopted fiscal 2019 general fund budget calls for another deficit of $14.8 million (3.1%). However, we note that the county annually builds a contingency into its budget for unexpected expenditures. For fiscal 2019, the budgeted contingency is $21.6 million. Given Bexar County's historical trend of conservative budgeting, with expenditures coming in under budget, as well as continued taxable value growth, we expect the county's budgetary performance to remain at least strong despite the budgeted deficits.

We note that the county's deputy constables recently filed a lawsuit against the county demanding the creation of a collective bargaining unit, as well as retroactive payment of salaries and benefits. The lawsuit is based, in part, on an older legal action in which the county prevailed, as well as an April 2018 Texas Supreme Court ruling establishing that deputy constables are included in the term "law enforcement" for the purpose of collective bargaining. While it is unclear how many years of back pay and benefits the constables demand and thus the potential financial impact, we believe it would be immaterial to the county's financial position as there are fewer than 100 constables, compared with 4,800 county employees overall and a general fund budget of $450 million.

Very strong budgetary flexibility

Bexar County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 20% of operating expenditures, or $85.4 million.

The estimated $4.5 million general fund draw in fiscal 2018 will reduce available fund balance to approximately $86.1 million, or 19% of expenditures, including transfers.

The fiscal 2019 budget reflects a slight drawdown of reserves, bringing the available fund balance to $71.4 million, or 15% of expenditures, including the budgeted contingency. Even if the deficit were to be realized, the available fund balance would remain what we consider very strong and in line with the county's formal reserve target of at least 15% of expenditures.

Despite the budgeted draw, we expect the county's flexibility to remain very strong given historically better-than-budgeted results.

Very strong liquidity

In our opinion, Bexar County's liquidity is very strong, with total government available cash at 51.6% of total governmental fund expenditures and 3.3x governmental debt service in 2017. In our view, the county has exceptional access to external liquidity if necessary.

Bexar County's regular issuance of tax-supported obligations supports its exceptional access to external liquidity. All of its investments comply with Texas statutes and the county's internal investment policy. The county's investments are not aggressive, in our view, and are available and liquid within a year. As of Sept. 30, 2017, the county's investments included money market funds, U.S. government securities, state-pooled investments, and commercial paper, none of which we consider aggressive given the portfolio diversification.

Bexar County has no contingent liabilities that could lead to an unexpected deterioration from very strong levels. It has historically had what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will worsen.

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 15.6% of total governmental fund expenditures, and net direct debt is 336.6% of total governmental fund revenue.

The county has substantial debt outstanding that our criteria does not consider to be from a self-supporting source, but this debt is in fact supported by additional revenue. The county levies a flood control tax that supports about $300 million of its debt outstanding. The county's ad valorem tax levy under its Flood Control Bond Order authorizes a 15-cent flood control tax rate. Given that this is a property tax pledge, we do not consider this self-supporting, but the county does use this additional levy (over and above its traditional ad valorem rate) to pay debt service.

In addition, the county has significant debt that it pays from revenue 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 that will be reimbursed through the state. We do not consider sales tax debt self-supporting. We will give credit for self-support for the pass-through toll revenue bond projects once at least three years of payment from the state is evidenced in the audited financial statement. In our opinion, the debt burden is likely to decline as reimbursements continue to flow in from the state.

Following this issuance, which will fund much of the county's capital improvement plan, the county's annual debt issuances will be smaller, and will fund roads and other projects, in line with its capital improvement plan.

Bexar County's required pension and actual other postemployment benefits (OPEB) contributions totaled 6.2% of total governmental fund expenditures in 2017, with 5.2% representing required contributions to pension obligations and 1.0% representing OPEB payments. The county made its full annual required pension contribution.

The county participates in the Texas County and District Retirement System (TCDRS), which is administered by the State of Texas and is the county's largest plan. Bexar County's required pension contribution is its actuarially determined contribution, which is calculated at the state level based on an actuary study. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, the county's net pension liability was measured as of Dec. 31, 2016, and was $180.7 million. The TCDRS plan maintained a funded level of 86.5%, using the plan's fiduciary net position as a percentage of the total pension liability.

The county also provides health care benefits to retirees, which it pays for on a pay-as-you-go basis. We do not expect these costs to materially increase over the next several years.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects our view of Bexar County's very strong budgetary flexibility and liquidity, which is supported by very strong management. The stable outlook also reflects our expectation that the county will maintain very strong reserves and that, although the debt and contingent liabilities profile will remain very weak, significant direct debt will be paid for through sources the county considers self-supporting and state funds. We do not expect to change the rating during the two-year outlook period because we believe that the county will maintain very strong reserves and that the county's economy will continue to prosper given its location in the San Antonio-New Braunfels MSA.

While we do not expect to change the ratings within the two-year outlook horizon, a material reduction in the county's budgetary performance or a weakening of the key economic indicators could place pressure on the ratings.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of December 7, 2018)		
Bexar Cnty comb flood cntl tax and rev certs of oblig ser 2011 dtd 12/01/2011 due 06/15/2014-2031 2035 2037		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of December 7, 2018) (cont.)		
Bexar Cnty comb tax and rev certs of oblig		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty comb tax and rev certs of oblig ser 2013B dtd 07/15/2013 due 06/15/2016-2034 2039 2043		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty flood cntl tax rfdg bnds ser 2016 dtd 06/15/2016 due 06/15/2039		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty flood control tax rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty ltd tax rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty ltd tax rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty pass-through rev and ltd tax rfdg bnds (Blanco Rd Proj)		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty pass-through rev and ltd tax rfdg bnds (Culebra Rd Proj)		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty unltd tax rfdg bnds ser 2013 dtd 12/01/2013 due 06/15/2015-2027		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty Flood Control Tax Rfdg Bnds ser 2014 dtd 12/15/2014 due 06/15/2038		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty 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	Affirmed
Bexar Cnty Unltd Tax Rfdg Bnds ser 2014 dtd 12/15/2014 due 06/15/2028		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Bexar Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
San Antonio River Auth GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to Bexar County, TX's Series 2018 CO; stable outlook

06 Dec 2018

New York, December 06, 2018 -- Moody's Investors Service has assigned a Aaa to Bexar County, TX's $193.7 million Combination Tax and Revenue Certificates of Obligation, Series 2018. We have also maintained the Aaa on the county's outstanding general obligation unlimited (GOULT) and general obligation limited tax (GOLT). Post sale, the county will have $21.7 million in GOULT and $1.9 billion in GOLT obligations. The outlook is stable.

RATINGS RATIONALE

The Aaa rating reflects the county's expansive tax base that is anchored by institutional presence and benefits from a thriving and diverse local economy despite below average residential income indicators. It also incorporates the county's practice of conservative budgeting reflected by a history of financial performance materially outpacing the budget. In the next 12 months, the county will report a draw in its main operating fund, however, reserve levels will remain favorable and consistent with the peer group. The rating further considers the debt levels that are above its peers but should remain affordable due to tax base growth. The county's pension burden is manageable.

RATING OUTLOOK

The stable outlook reflects the county's regional economic strength and strong revenue performance that should continue to benefit from robust commercial and residential development.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Recurring structural imbalance that weakens the financial profile

- Significant taxable value loss

- Material increase in the debt burden absent corresponding tax base growth

LEGAL SECURITY

The certificates are secured by a direct and continuing annual ad valorem tax, levied on all taxable property within the limits prescribed by law. The certificates are additionally secured by a subordinate lien on pledge revenues of the parking system.

USE OF PROCEEDS

Proceeds from the sale will be used for several county wide capital needs including jail improvements and modifications, information technology needs, parking garage, communication system, public works needs and roads.

PROFILE

The county is located in south central Texas (Aaa stable) and serves as home to San Antonio (Aaa stable). The local economy is driven by financial services, defense and tourism. The estimated population is almost 2 million.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in

December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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Bexar County, Texas

New Issue Report

Ratings

Long-Term Issuer Default Rating	AAA

New Issue

Combination Tax and Revenue Certificates of Obligation, Series 2018	AAA

Outstanding Debt

General Obligation Limited Tax Bonds	AAA
Certificates of Obligation	AAA

Rating Outlook

Stable

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New Issue Summary

Sale Date: Negotiated sale during the week of Dec. 10.

Series: $193,715,000 Combination Tax and Revenue Certificates of Obligation, Series 2018.

Purpose: Finance various public improvements.

Security: Annual property tax levy limited to $0.80 per $100 assessed valuation (AV) for operations and debt service plus a subordinate lien on the net revenues of the county's parking facilities.

Analytical Conclusion

The 'AAA' IDR and bond ratings reflect the county's strong gap-closing capacity, solid reserve position, and moderate liability burden. Management's prudent budgeting of its expansive resource base benefits the county's prospects for maintaining structural balance through economic cycles.

Economic Resource Base: Bexar County, with an estimated 2017 population of nearly 2 million, is home to San Antonio (GO bonds rated 'AAA'), the seventh largest city in the U.S. Prominent sectors include military and government, domestic and international trade, convention and tourism, medical and healthcare, and telecommunications. Population growth and employment gains remain steady despite fluctuations in the energy sector that services the nearby Eagle Ford Shale.

Key Rating Drivers

Revenue Framework: 'aaa'
The county's general fund revenues are expected to continue a strong growth trajectory due to rapid population growth and economic expansion. The county's independent legal ability to raise property tax revenues provides ample flexibility.

Expenditure Framework: 'aa'
The county's solid expenditure flexibility is derived from management's prudent budgeting practices and moderate carrying costs. The county has demonstrated a solid ability to curtail spending during times of economic decline. Fitch Ratings expects growth-related spending demands to be matched by solid revenue gains, keeping their trajectories in line with one another.

Long-Term Liability Burden: 'aa'
The county's liability burden is moderate and driven primarily by overlapping debt. The county consistently funds its pension at actuarially determined levels and the net pension liability is moderate.

Operating Performance: 'aaa'
The combination of the county's expenditure flexibility, revenue raising authority, and modest revenue volatility, as well as its record of reserve funding, should enable the maintenance of a high level of financial flexibility during cyclical downturns. The county has demonstrated a commitment to prudent fiscal practices throughout economic cycles.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	10/27/17
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	2/10/04
AA+	Assigned		8/09/00

Rating Sensitivities

Shift in Fundamentals: The IDR and bond ratings are sensitive to material change in the county's strong revenue-raising and expenditure flexibility and solid financial position, which Fitch expects the county to maintain throughout economic cycles.

Credit Profile

The local economy continues to expand rapidly with continued sector development in high technology, medical and healthcare, higher education, financial services, and others providing diversity beyond the military, which remains a major economic factor. Lackland Air Force Base, Randolph Air Force Base, and Fort Sam Houston account for over 90,000 military and civilian personnel (about 10% of employment). These facilities benefited from very large investments and additions to troop strength in past base realignments.

Located 150 miles from the U.S.-Mexico border, the county's economic base has some exposure to the uncertainty related to the trump administration's renegotiation of the North American Free Trade Agreement (NAFTA). A new trade agreement, the United States–Mexico-Canada Agreement (USMCA) has been signed by the respective presidents but must still be ratified by each country's legislative branch. In its current form, the USMCA should reduce key uncertainties for trade among the three countries. However, failure to ratify the USMCA or ratification of a materially different revised USMCA could have major economic implications for local economies along the U.S.-Mexico border. For additional details, please see Fitch's press release, "Fitch Ratings: NAFTA Replacement USMCA Settles Key Trade Uncertainties", dated Oct. 2, 2018 and "NAFTA Termination Could Hit Upper Midwest, Border State Economies Hard", dated April 11, 2018. However, Fitch expects the impact to Bexar County to be mitigated by the diversity of its expansive economy. The county's unemployment rate remains well below state and U.S. averages.

Revenue Framework

Property taxes account for over 74% of general fund revenues in fiscal 2018. Favorable revenue trends have been aided by steady tax base gains and the county's goal to maintain a level O&M tax rate even during periods of AV growth.

Historical revenue growth has exceeded the level of inflation and U.S. GDP growth, aided by steady AV growth. Fitch expects the county's revenues to continue this trend given the rapidly expanding employment base and strong demographic trends. AV increased by 7.8% and 6.8% in fiscal years 2018 and 2019, respectively.

At less than $0.28 in fiscal 2019, ample taxing margin remains under the $0.80 per $100 AV cap for operations and limited tax debt service. If a proposed tax rate results in an 8% year-over-year levy increase (based on the prior year's values), the rate increase may be subject to election if petitioned by voters.

Expenditure Framework

Typical of municipal governments, public safety is the largest expenditure, accounting for about one-half of general fund spending.

The pace of spending growth absent policy actions is likely to be in line with revenue growth but pressured by an expanding population and growing service delivery needs in the unincorporated portions of the county.

Related Research

Fitch Rates Bexar County, TX Certificates of Obligation 'AAA'; Outlook Stable (December 2018)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria -- Effective 5/31/2017 - 4/3/2018 (May 2017)

The county's fixed cost burden is moderate, with carrying costs for debt, pension, and OPEB equaling approximately 18% of fiscal 2017 governmental spending. Expenditure flexibility is aided by the county's practice to annually appropriate contingencies equal to $15 million–$20 million (roughly 4%–5% of spending) plus the maintenance of 1% of spending as part of its unassigned fund balance.

The county's workforce controls are solid, providing management with the authority to determine the hiring/firing and establishment of staffing patterns for all positions. Management also determines pay hikes and benefit levels for all positions except for deputy sheriffs, which are established through a collective bargaining agreement (CBA). A four-year CBA for deputy sheriffs (which include correction officers) was approved in January 2017 that provides wage hikes totaling 15% through fiscal 2020. Deputy sheriffs account for 29% of total general fund headcount.

Long-Term Liability Burden

The long-term liability burden, including limited and unlimited tax bonds, venue project bonds, overlapping debt and Fitch-adjusted net pension liabilities, is moderate at approximately 15% of personal income. Overlapping debt comprises over three-quarters of the total liability burden. Overall debt levels have risen mostly from substantial debt issuances by the county's large number of overlapping jurisdictions, which include 15 school districts. Continued overlapping debt issuances are likely to be accompanied by steady gains in personal income, leading Fitch to expect the county's long-term liability burden to remain moderate.

The county's future debt plans are modest relative to outstanding direct debt. The county plans to issue about $40 million of tax-supported debt annually with equal parts for capital improvements and road projects. No tax rate impact is anticipated given the healthy pace of recent AV gains. In fiscal 2019, the county will also issue approximately $24 million of pass-through revenue and limited tax bonds that are supported by payments received by the county pursuant to a pass-through toll agreement between the county and the Texas Department of Transportation. The 10-year principal amortization rate for general obligation and venue tax bonds is slow at 23%.

County employees participate in an agent multiple-employer defined pension plan administered by the Texas County and District Retirement System. The county consistently funds its pension contributions at the actuarially determined level and the net pension liability totals approximately $535 million or an estimated 0.6% of personal income based on Fitch's adjusted 6% rate of return.

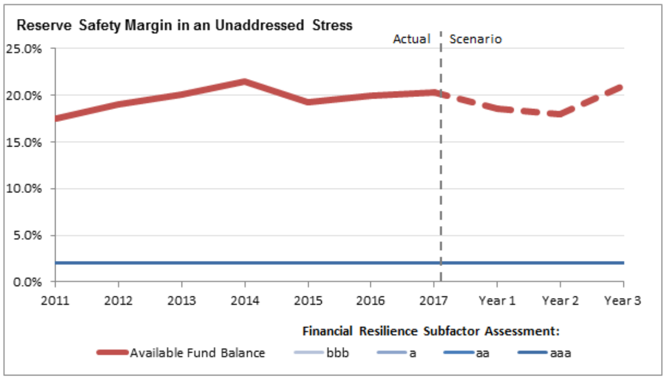
Operating Performance

The county's strong financial resilience is derived from a combination of revenue and expenditure flexibility, modest revenue volatility, and solid reserve levels. For details, see Scenario Analysis, page 4.

A multi-year strategy during the last downturn relied on departmental cuts and contingency appropriations with no deferrals of annual pension contributions, leading to steady and sustainable additions to financial reserves. Moderate annual pay-go funding provided additional expenditure flexibility. The fiscal 2017 audit posted a modest operating surplus, resulting in an ample unrestricted fund balance of over $85 million, or approximately 20% of spending. Unaudited results for fiscal 2018 point to a modest general fund net deficit equal to about 1% of spending. The adopted fiscal 2019 budget again includes both a draw on fund balance (approximately $14 million, or 2.8% of spending) and sizeable contingencies equal to 4.5% of spending which Fitch expects will support balanced operations. The spending plan also maintains a nearly level property tax rate despite continued healthy AV gains.

Bexar County (TX)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The county's strong financial resilience is derived from a combination of revenue and expenditure flexibility, modest revenue volatility, and solid reserve levels.

Prudent budgeting allowed the county to increase its financial reserves in the wake of the last downturn, which was relatively modest for the county. Based on historical results, Fitch would expect a moderate economic downturn to result in a modest decline in revenues in the first year of a downturn, followed by a prompt rebound; Fitch would expect the county's financial position to remain solid throughout the economic cycle.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	3.3%	5.7%
Inherent Budget Flexibility		Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	324,926	333,527	339,744	359,733	374,035	401,206	426,180	421,918	435,888	460,586
% Change in Revenues	-	2.6%	1.9%	5.9%	4.0%	7.3%	6.2%	(1.0%)	3.3%	5.7%
Total Expenditures	312,995	312,397	324,489	341,191	366,506	381,506	401,435	409,464	417,653	426,006
% Change in Expenditures	-	(0.2%)	3.9%	5.1%	7.4%	4.1%	5.2%	2.0%	2.0%	2.0%
Transfers In and Other Sources	3	3	3	-	-	-	-	-	-	-
Transfers Out and Other Uses	5,641	14,755	10,179	10,046	10,495	13,519	18,264	18,630	19,002	19,382
Net Transfers	(5,638)	(14,752)	(10,176)	(10,046)	(10,495)	(13,519)	(18,264)	(18,630)	(19,002)	(19,382)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	6,293	6,378	5,079	8,497	(2,966)	6,181	6,481	(6,175)	(767)	15,198
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	2.0%	1.9%	1.5%	2.4%	(0.8%)	1.6%	1.5%	(1.4%)	(0.2%)	3.4%
Unrestricted/Unreserved Fund Balance (General Fund)	55,724	62,222	67,282	75,441	72,810	78,999	85,441	79,267	78,500	93,697
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	55,724	62,222	67,282	75,441	72,810	78,999	85,441	79,267	78,500	93,697
Combined Available Fund Bal. (% of Expend. and Transfers Out)	17.5%	19.0%	20.1%	21.5%	19.3%	20.0%	20.4%	18.5%	18.0%	21.0%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

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