



## Rating\_Action: Moody's confirms Aaa on Bexar County TX's GOs and assigns Aaa issuer rating; outlook revised to stable

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New York, February 06, 2023 -- Moody's Investors Service has confirmed the Aaa on Bexar County, TX's general obligation unlimited (GOULT) and limited tax (GOLT) ratings. Concurrently, Moody's has assigned a Aaa issuer rating. This action concludes a review that was initiated on November 3, 2022 in conjunction with the release of the US Cities and Counties Methodology. The county had about \$2.2 billion in outstanding debt as of November 15, 2022. The outlook has been revised to stable from ratings under review.

### RATINGS RATIONALE

The Aaa issuer rating incorporates the county's very strong financial position and available cash with a financial history guided by an experienced management team. The rating also considers the county's large and robust economy that continues to grow at a much faster rate than the nation. Resident income levels and full value per capita are lower than peers, reflecting the effect of sizeable institutional presence that serves a critical function in the nation's defense system. Even so, the presence of several military installations remains one of the main anchors of the area. Lastly, the rating considers the county's high leverage, largely from debt, which is above similarly rated peers.

Bexar County's economy will remain a strength benefiting from significant new development and reinvestment. The county is home to the City of San Antonio (Aaa stable). Availability of jobs in the area has supported population growth, boosting the need for residential construction which when coupled with commercial and industrial construction has driven sizeable increases in full value; full value has averaged an almost 8% annual increase over the past five years through fiscal 2023. However, full value per capita and resident income are lower than the nation and peers reflecting the large institutional presence largely concentrated in the military which is excluded from taxation and not captured in the full value. Areas with high institutional presence also typically report lower income levels. Despite this, the industry is a stabilizing factor for the area. Growth in the metropolitan statistical area's major (defense, financial services, tourism) and non-major sectors has contributed to GDP growing at a faster pace than the nation and peers. Demand for the area also supported the county's post pandemic recovery with the unemployment rate down to 3.5% as of November 2022, from the 7.6% reported in 2020 per the Bureau of Labor Statistics.

The county's finances will remain favorable for the next 18 to 24 months supported by a management team with a long history of prudent practices demonstrated by a steady pace of financial performance outperforming budgeted expectations. Preliminary results for fiscal 2022 (September 30 year-end) reflect continued strong operating performance supported by revenue growth. This follows fiscal 2021's where the county's Moody's adjusted available fund balance and business activities' net current assets increased to \$229.2 million, a favorable 29.3% of revenue. This figure is slightly misleading as it does not include a large portion of the county's governmental funds which are classified as restricted because they are derived from special revenue for a specific purpose, grants or local property taxes for roads and bridges.

Nevertheless, these funds are available for county purposes. When adjusted for these funds which totaled \$241.5 million, the available fund balance improved to \$470.7 million, 60.2% of revenue. The fiscal 2023 budget is underway and county officials do not currently expect any negative variance to budget.

The county's significant leverage will likely remain over the next several years as the county continues to invest in infrastructure and other needs to serve its growing population. At fiscal year-end 2021, debt totaled \$2.5 billion, 3.12 times revenue. In addition, the county has substantial pension and other post-employment benefits (OPEB) liabilities. Also as of fiscal year end, Moody's adjusted net pension liability amounted to \$1.7 billion, about 2.13 times revenue. Combined leverage including other small long-term liabilities was about \$4.4 billion at the end of the fiscal year, a very high 5.62 times revenue, although a portion of the debt is expected to be repaid from pass through reimbursements from the Texas Department of Transportation.

The absence of a distinction between the issuer and GOULT ratings reflects the county's general obligation unlimited property tax pledge that is dedicated to debt service.

The absence of a distinction between the issuer and GOLT ratings reflects the ample taxing headroom under the limited tax cap that provides more than five times debt service, offsetting the lack of full faith and credit pledge and the inability of the county to increase the tax above the cap.

## RATING OUTLOOK

The stable outlook reflects the strength of the economy and a stable financial position which when coupled with prudent practices, will keep the high leverage manageable.

## FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Increased leverage
- Structural imbalance that leads to significant decrease in reserves and liquidity
- Weakened economic metrics reflected in key indicators

## LEGAL SECURITY

The GOULT and GOLT bonds are payable from a direct and continuing annual ad valorem tax levied on all taxable property within the county with the GOULT bonds not subject to any legal limitation as to rate or amount while the GOLT bonds are subject to the limits prescribed by law.

## PROFILE

Bexar County is in south central Texas (Aaa stable) and is part of the Metropolitan Statistical Area (MSA) of San Antonio (Aaa stable), which is also the county seat. San Antonio is the second largest city in Texas and the seventh largest city in the United States. The county's total operations include governmental and business enterprise services, a majority of which consistent of the community venue fund which has been used to support the development and improvement of amateur sports facilities, performing arts and cultural facilities and an arena that hosts the city's professional basketball team. The local economy is anchored by defense, financial services, and tourism. The county has more than 2 million residents.

## METHODOLOGY

The principal methodology used in this rating was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/api/rmc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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