Tax Supported
New Issue

Bexar County, Texas

Ratings

New Issues

Limited Tax Refunding Bonds, Series 2010	AAA

Outstanding Debt

Unlimited Tax Bonds	AAA
Limited Tax Bonds	AAA

Rating Outlook

Stable

Analysts

Jose Acosta
+1 512 215-3726
jose.acosta@fitchratings.com

Jaissy Lorenzo
+1 212 908-9167
jaissy.lorenzo@fitchratings.com

New Issue Details

Sale Information: $39,400,000 Limited Tax Refunding Bonds, Series 2010, during the week of June 14 via negotiation.
Security: Annual property tax levy, limited to $0.80 per $100 of taxable assessed valuation.
Purpose: Proceeds to refund outstanding commercial paper with long-term debt.
Final Maturity: June 15, 2025.

Related Research

Applicable Criteria
- *Tax-Supported Rating Criteria, Dec. 21, 2009*
- *U.S. Local Government Tax-Supported Rating Criteria, Dec. 21, 2009*

Other Research
- *Bexar County, Texas, Nov. 18, 2009*
- *Bexar County, Texas, Aug. 7, 2009*
- *Bexar County, Texas, Nov. 14, 2008*

Rating Rationale

- Bexar County's solid financial position has benefited from prudent financial stewardship during the current economic slowdown as evidenced by a multiyear approach to controlling expenditure growth and limiting the scale of structural imbalances.
- The county's 10% fund balance policy is further strengthened with three additional financial reserves, providing additional flexibility.
- The county's debt profile is positive as evidenced by a very low direct debt burden and rapid amortization.
- The county's population growth remains rapid, aided by affordable home prices and ample developable land, which, until recently, was fueling solid property tax base growth.
- Although the local economy has diversified notably, the military remains a major economic factor as indicated by very large ongoing investments and planned additions to troop strength resulting from base realignment and closure decisions, which have benefited the city.
- The recent contraction of the local economy has moderated somewhat, enabling the county's unemployment rate to remain well below state and national averages.
- Residential building activity has declined significantly, although nonresidential activity has remained stable due to numerous major projects in the military, healthcare, higher education, and professional business and services sectors; additionally, the area's housing market remains relatively healthy as evidenced by only modest home price declines.

Key Rating Drivers

- The maintenance of adequate financial reserves and flexibility consistent with 'AAA' rated entities is key to preserving current credit quality.
- Tax base stabilization is an important factor in maintaining its favorable taxing flexibility and financial resilience, given the county's dependence on property taxes for operations.

Credit Summary

Bexar County, with an estimated 2010 population of 1.6 million, is home to San Antonio (GO bonds rated 'AAA' with a Stable Rating Outlook by Fitch Ratings), the seventh largest city in the U.S. Prominent sectors in the local economy are military and government, domestic and international trade, convention and tourism, medical and healthcare, financial services, and telecommunications. The economic slowdown has impacted local employment levels as indicated by a growing unemployment rate that totaled 6.9% in April 2010. Nevertheless, the city's unemployment rate still compares favorably to state and national averages of 8.1% and 9.5%, respectively, for the same period. Major near-term job growth is expected from the relocation of Toyota's Tacoma production from California and construction of the $2.1 billion San Antonio Military Medical Center, which will receive nearly 5,000 additional troops and 9,000 additional students per year.

Taxable assessed valuation (TAV) had surged in recent years, but declining base values are now exerting downward pressure on the county's tax rolls. The value of new construction is

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	6/11/10
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	11/17/09
AA+	Affirmed	Stable	8/5/09
AA+	Affirmed	Stable	5/18/09
AA+	Affirmed	Stable	11/13/08
AA+	Affirmed	Stable	6/11/08
AA+	Affirmed	Stable	8/13/07
AA+	Affirmed	Stable	8/8/07
AA+	Affirmed	Stable	3/31/06
AA+	Affirmed	Stable	9/6/05
AA+	Affirmed	Stable	10/1/04
AA+	Affirmed	Stable	2/10/04
AA+	Affirmed	—	4/16/02
AA+	Assigned	—	8/9/00

projected to be more than offset by falling base values in fiscal 2011, resulting in a small drop in TAV. As a result, county officials now project modest pre-boom rates of TAV growth beyond fiscal 2011.

Finances

The county's financial position remains strong, enabled by a multiyear strategy to cut general fund expenditures, starting in fiscal 2009, to minimize any budget gaps by fiscal 2011. This proactive approach has enabled the county to maintain its reserves above its 10% fund balance policy level; in the fiscal 2007 budget, the county further enhanced its policy with the creation of three additional reserves for specific uses. Additionally, it has been the county's practice to include large contingency appropriations in its budgets, allowing it to outperform year-end projections. After posting a solid $48 million unreserved fund balance, equal to 15% of spending, in fiscal 2009, the county plans to add moderately to its financial cushion in fiscal 2010, due in part to a $9 million contingency appropriation. The preliminary fiscal 2011 budget proposal accommodates a modest 1.0% TAV decline; notably, the county is also preparing contingency plans to accommodate a TAV decline as large as 4.0%. Fitch Ratings views such contingency planning as favorable.

General Fund Financial Summary

($000, Audited Fiscal Years Ended Sept. 30)

	2005	2006	2007	2008	2009
Revenues	242,967	267,574	299,554	312,691	319,254
Expenditures	232,521	246,212	278,589	312,679	316,698
Net Change	**10,446**	**21,362**	**20,965**	**12**	**2,556**
Transfers In/Other Sources	869	564	416	108	18
Transfers Out/Other Uses	(3,891)	(3,109)	(16,215)	(2,366)	(5,429)
Net Income/(Loss)	**7,424**	**18,817**	**5,166**	**(2,246)**	**(2,855)**
Total Fund Balance	29,910	48,727	53,893	51,489	48,635
As % of Expenditures, Transfers Out, and Other Uses	12.7	19.5	18.3	16.3	15.1
Unreserved Fund Balance	29,364	47,878	53,231	50,100	48,062
As % of Expenditures, Transfers Out, and Other Uses	12.4	19.2	18.1	15.9	14.9
Unreserved, Undesignated Fund Balance	29,364	47,878	53,231	50,100	48,062
As % of Expenditures, Transfers Out, and Other Uses	12.4	19.2	18.1	15.9	14.9

Note: Numbers may not add due to rounding.

About 70% of general fund revenue is derived from ad valorem taxes. Public safety expenses dominate the general fund budget, with 50% of appropriations for law enforcement and jail operations. Notably, the fiscal years 2008 and 2009 budgets included partial funding of the estimated annual required contribution for the county's unfunded liability incurred for post-employment benefits, indicative of proactive management.

Property Value Trends

(Fiscal Years Ending Sept. 30)

	TAV ($000)	% Change
2000	42,000,843	—
2001	45,800,671	9.0
2002	50,208,853	9.6
2003	52,879,770	5.3
2004	57,074,630	7.9
2005	60,273,124	5.6
2006	65,437,181	8.6
2007	74,916,972	14.5
2008	86,921,986	16.0
2009	97,312,378	12.0
2010	98,569,847	1.3

Debt

The current offering will refund all the county's outstanding commercial paper. Including the county's venue tax bonds and $155 million in limited tax debt to be issued next month, the county's direct debt is low at $640 per capita and 1.0% of market value. Overall debt is relatively high at 6.5%

of market value, even after adjusting for state support of local school district debt. Due to rising property values, such state support has declined substantially, increasing effective overall debt levels for the county, which includes 15 different school districts. Including the current offering, the principal amortization of property tax-supported debt has declined notably to a below-average rate of 30% within 10 years.

Debt Statistics

($000)

This Issue	39,400
Proposed Issues[a]	155,000
Outstanding Debt:	
GO Debt	730,525
Other Debt	114,340
Direct Debt	**1,039,265**
Overlapping Debt[b]	5,954,978
Total Overall Debt	**6,994,243**
Debt Ratios	
Direct Debt per Capita ($)[c]	640
As % of Market Value[d]	1.0
Overall Debt per Capita ($)[c]	4,310
As % of Market Value[d]	6.5

[a]To be issued in July 2010. [b]Adjusted to reflect state support for local school district debt. [c]Population: 1,622,899 (2010 estimate). [d]Market value: $108,437,413,000 (fiscal 2010). Note: Numbers may not add due to rounding.

The county plans to issue up to $680 million over a 10-year period in non-voter-approved certificates of obligation for drainage improvements planned in conjunction with the city of San Antonio, the San Antonio River Authority (SARA), and other regional participants. Previously funded through contractual obligations to SARA, the county will now issue the debt directly, although SARA will continue to provide technical assistance and manage the main river project. For this reason, the county shifted some of its operations and debt service tax levy to the flood control special tax levy in fiscal 2007.

Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATINGS TO BEXAR COUNTY'S LIMITED TAX REFUNDING BONDS, SERIES 2010, LIMITED TAX GO BONDS, SERIES 2010 AND COMBINATION TAX AND REVENUE CO, SERIES 2010

Global Credit Research - 11 Jun 2010

Aaa RATING AFFECTS $553 MILLION IN PARITY DEBT, INCLUDING CURRENT ISSUES

County
TX

Moody's Rating

ISSUE		RATING
Limited Tax Refunding Bonds, Series 2010		Aaa
Sale Amount	$39,400,000	
Expected Sale Date	06/17/10	
Rating Description	General Obligation	
Limited Tax General Obligation Bonds, Series 2010		Aaa
Sale Amount	$25,000,000	
Expected Sale Date	06/17/10	
Rating Description	General Obligation	
Combination Tax and Revenue Certificates of Obligation, Series 2010		Aaa
Sale Amount	$130,000,000	
Expected Sale Date	06/17/10	
Rating Description	General Obligation	

Opinion

NEW YORK, Jun 11, 2010 -- Moody's Investors Service has assigned a Aaa rating to Bexar County's [TX] $39.4 million Limited Tax Refunding Bonds, Series 2010, $25 million Limited Tax General Obligation Bonds, Series 2010, and $130 million Combination Tax and Revenue Certificates of Obligation, Series 2010. At the same time, Moody's has affirmed the Aaa rating on the county's $358.7 million in outstanding limited tax debt and $37.56 million in outstanding unlimited tax debt. The limited tax bonds are secured by an ad valorem tax limited to $8.00 per $1,000 of assessed valuation for all General Fund purposes including debt service requirements. The Certificates are secured by an annual ad valorem tax levied on all taxable property within the County, within the limits prescribed by law, as well as a subordinate lien on and pledge of certain net revenues of the County's parking facilities. The refunding bonds will take out the outstanding amount remaining under the commercial paper program. Proceeds from the bonds and certificates will be used to make improvements to county buildings and parks and to construct parking garages. Assignment of the Aaa rating reflects the County's sizable, diverse and stable tax base. The rating also continues to reflect a declining yet satisfactory General Fund reserve as well as manageable debt burdens.

SIZABLE AND DIVERSE TAX BASE; GROWTH IS SLOWING

Bexar County has historically demonstrated healthy growth patterns, driven primarily by the diverse economy of the City of San Antonio (GO rated Aaa). The local employment base includes a mix of military, tourism, financial, healthcare, and biomedical industries. Concentration exists in the armed forces as three of the top five employers are military installations that in total employ approximately 50,000. As a result of the recent BRAC realignments, San Antonio will net approximately 3,600 military jobs over the next five years. Additionally, the Department of Defense (DOD) Medical Education and Training Campus (METC) will be located in San Antonio consolidating five major learning institutions. The METC will bring in 11,000 new medical related jobs and will be the largest inpatient facility in the DOD and one of the largest outpatient facilities in the DOD. Approximately 4,000 of these new jobs are expected to materialize in the near term. Additionally, Lackland AFB was named as the Cyber Command Center which will bring additional jobs as well. Four Fortune 500 companies are headquartered in the county: Valero, Tesoro, USAA, and Clear Channel. The aerospace industry also has a positive impact on the economy supporting over 9,500 jobs and contributing $3.3 billion annually. The new Toyota Tundra Plant in the southern portion of the county has also been a new economic driver employing almost 2,000 and attracting 21 direct and indirect suppliers.

Tourism represents another sizeable sector of the county's economy and has shown resilience in recent years with the hotel occupancy rate remaining at or above 65%, which is a favorable level relative to peer communities and particularly those within the state. Historically, tax base expansion has been solid, averaging 10.3% annually over the last five years. In fiscal 2009, the tax base increased 9% to a sizable $95 billion. Tax base growth has been driven by a mix of residential, commercial, retail, and industrial development. However, in fiscal 2010, the growth rate was a slower 1.3% to $98.5 billion which was the net result of new construction and growth in commercial values which offset the loss in existing residential values. We recognize that a reduction in the rate of growth is consistent with the national trend and despite a slow down, the county's vibrant economy remains consistent with the current rating level.

MODERATE DECLINES IN GENERAL FUND BALANCE ANTICIPATED

Since fiscal 2004, the County has managed an increase in the General Fund balance to a satisfactory level that will remain at least equal to the 10% General Fund balance policy. Cost containment strategies and revenue enhancements were implemented when the county adopted the

2005 budget, which initially showed an operating surplus of $920,000. Actual results for 2005 ended with a $7 million surplus increasing the total fund balance to $29 million. During fiscal 2006, the total fund balance increased a substantial $18.8 million to $48 million which was a healthy 18.2% of General Fund revenues. Results for the 2007 fiscal year end were favorable with a $5 million surplus increasing the fund balance to $53 million. In fiscal 2008, the fund balance decreased slightly to $51 million due to some one time capital expenditures. During fiscal 2009, the management made some mid-year adjustments to the budget including expenditure cuts in discretionary funding and hiring freezes due to shortfalls in key revenues such as property taxes, interest earnings, and motor vehicle taxes. Officials had conservatively projected a $10 million draw down on the General Fund balance; however, the actual result was a more modest $3 million draw down making the total fund balance $48 million which remained a healthy 15.2% of General Fund revenues. Additionally, officials are working on the 2011 budget and stated that the General Fund balance could decline again, but not below the minimum 10% level. Although we believe the county's fund balance policy is adequate, ongoing use of reserves could begin to limit the county's financial flexibility, maintenance of which is key to the Aaa rating.

DIRECT DEBT BURDEN EXPECTED TO REMAIN FAVORABLE DESPITE SUBSTANTIAL SIZE OF CURRENT OFFERINGS

The Limited Tax Certificates are secured by an ad valorem tax limited to $8.00 per $1,000 of assessed valuation for all General Fund purposes including debt service requirements. The county currently levies a total limited tax rate of $3.27 per $1,000 of assessed valuation leaving ample taxing margin available under the $8.00 cap. The Flood Control Tax Certificates are secured by an ad valorem tax limited to $1.50 per $1,000 of assessed valuation per an election approved by voters in 1951. The County currently levies a total flood control tax rate of $0.306 per $1,000 of assessed valuation which also provides ample taxing margin. Within the $8.00 tax rate cap, up to $4.00 may be allocated for debt service requirements for both the limited tax debt and the flood control debt. Under this cap for debt service, the county levies a low $0.45 per $1,000 of assessed valuation for the limited tax debt and a low $0.159 per $1,000 of assessed valuation for flood control. The combined $0.609 tax rate for all debt service is well below the $4.00 cap. The County also received voter authorization to levy $1.50 per $1,000 of assessed valuation for farm to market roads; however, this tax rate is not currently utilized.

With the current issues, the County's direct debt burden remains low at 0.9% and the overall is elevated at 6.6% primarily due to debt of overlapping school districts. The current capital improvement plan includes annual debt issuances for road and drainage improvements. The county has $49.3 million remaining in authorized but unissued debt from a November 2003 bond election that will be issued in various increments over the next seven years. Additionally, the county has authorization for a $100 million commercial paper program although following the issuance of the refunding bonds, no debt will remain outstanding under the program. Given the sizable tax base, future debt issuances will likely have minimal impact on the direct debt burden.

Outlook

The outlook for Bexar County's general obligation Aaa rating is stable given the size, diversity and stability of the County's economy. We believe the County will continue to practice prudent fiscal management to maintain reserves at a healthy level, above the county's minimum 10% reserve policy, and maintain structural balance in the budget over the long term.

KEY STATISTICS

Population: 1,622,899

2010 Full value: $98 billion

Full value per capita: $60,886

Direct debt burden: 0.9%

Overall debt burden: 6.6%

Rate of principal repayment (10 years): 38.6%

FY2009 General Fund balance: $48 million (15.2% of General Fund revenues)

Post-sale Limited Tax debt: $553 million

Commercial paper authorized: $100 million

PRINCIPAL METHODOLOGY AND LAST RATING ACTION

The principal methodology used in assigning the rating was Moody's General Obligation Bonds Issued by U.S. Local Government, published in October 2009, and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to Bexar County (TX) limited tax debt was on July 29, 2009, when a rating of Aa1 was assigned to the county's Certificates of Obligation, Series 2009A and Taxable Certificates of Obligation, Series 2009B. Those ratings were subsequently recalibrated to Aaa on April 23, 2010.

Analysts

Kristin Button
Analyst
Public Finance Group
Moody's Investors Service

Michelle Smithen
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

MOODY'S
INVESTORS SERVICE

STANDARD & POOR'S

PUBLIC FINANCE

Bexar County, Texas

Primary Credit Analysts:
Horacio Aldrete-Sanchez
Dallas
(1) 214-871-1426
horacio_aldrete@
standardandpoors.com

Secondary Credit Analysts:
Lauren Spalten
Dallas
214-871-1421
lauren_spalten@
standardandpoors.com

RatingsDirect
Publication Date
June 15, 2010

Credit Profile

US$39.4 mil Limited Tax Refunding Bonds, Series 2010 dated 06/15/2010, due 06/15/2025

Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to Bexar County, Texas' $39.4 million series 2010 limited tax refunding bonds. Standard & Poor's also affirmed its ratings on the county's general obligation (GO) debt outstanding.

The rating reflects our view of the county's:

- Diverse economy, which has a strong military presence and a growing service sector that includes tourism and health services;
- Solid property tax base growth, which has averaged more than 11.3% annually over the past five years;
- Very strong level of reserves; and
- Moderately high overall debt burden due mostly to the significant issuance of underlying entities.

The county's limited ad-valorem tax pledge secures the refunding bonds and contractual obligations. County officials will use bond proceeds to refund a portion of the county's GO debt outstanding.

Bexar County's population of about 1.6 million makes it the state's third-most populous county. Located in south-central Texas, San Antonio ('AAA' GO debt rating) is the county's seat and main economic engine. Although military and tourism have long been the county economy's anchors, medical and biomedical companies are now the leading force, contributing an estimated $12 billion to the area economy. In addition, Toyota Motor Corp. operates a truck manufacturing facility in San Antonio, accounting for approximately 5,000 direct and indirect jobs in the county. County management expects assessed value, which experienced strong growth through the past five years, to decline by about 1.5% for fiscal 2011. Wealth lags state and national levels, but is improving. Fiscal 2010 estimated market value is what we consider a strong $60,061 per capita, up from $34,425 in fiscal 2003. Median household effective buying income is good at 95% of the national level.

Bexar County's financial position remains very strong, in our opinion. In fiscal 2009, the county posted a small operating surplus, but had an overall reduction in the general fund balance of $2.8 million after transfers out to fund capital improvements. In our view, the resulting year-end fiscal 2009 unreserved general fund balance remained very strong at $48.1 million or 15.4% of expenditures. In fiscal 2010, revenue performance has lagged previous years, particularly due to a decline in motor vehicle taxes and interest earnings. County officials have implemented midyear cuts on discretionary items and are currently projecting to maintain general fund reserves in excess of the county's adopted policy of 10% of expenditures. Over the medium term, county officials expect to continue to draw down the unreserved general fund balance to fund capital expenditures; but they expect that the county's level of reserves will remain above the formally adopted policy.

Bexar County's practices are considered "strong" under Standard & Poor's financial management methodology, indicating practices are strong, well embedded, and likely sustainable.

In our view, the direct net debt burden is very low at just $626 per capita and 0.9% of market value. Overlapping debt—including a number of cities and school districts, and in particular, San Antonio and several of its school districts—is a moderately high $4,299 per capita and 7.4% of market value. Debt service carrying charges are moderately high at 12%. The county has $61.3 million in authorized and unissued GO debt, primarily to fund detention facilities. The county's electorate recently approved an extension of the venue tax (hotel occupancy tax), which was used to secure $415 million in new tourism-related projects. We understand that county management plans to issue about $155 million in additional GO debt in July 2010.

Outlook

The stable outlook reflects Standard & Poor's expectation that management will remain committed to maintaining reserve levels in line with its stated policy. The economic and employment base's continued diversification, coupled with a steady increase in household wealth and income levels, provides additional rating stability.

Financial Management Assessment: 'Strong'

Bexar County's practices are considered "strong" under Standard & Poor's financial management methodology, indicating practices are strong, well embedded, and likely sustainable. County management has a comprehensive set of financial policies that include budget assumptions that are based on external economic studies and a conservative estimation of historical trend analysis. In addition, county management develops long-range financial and capital plans, and provides monthly budget reports to the commissioners 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 adopted a formal debt management policy in 2007.

Pass-Through Toll Agreement

Bexar County currently has approximately $31.1 million in pass-through revenue bonds outstanding. These bonds were issued as GO debt of the county, but have an identified source of repayment that may eventually make these bonds self-supporting.

Texas established its pass-through toll program as a way to accelerate improvements in mobility and safety to the state's highway system. Pass-through financing is a partnership between local entities and the Texas Department of Transportation (TxDOT) where roadway construction is funded with per-vehicle or per-vehicle mile fees paid by TxDOT to the local entity. The total amount of reimbursement is based on the local entity's contribution to the project, which is generally tied to TxDOT's estimate for the cost of the project.

Pass-through highways look like typical non-tolled facilities. The difference is that the tolls typically paid by the motorist in conventional tolling are paid by the government entity, or in the case of Texas, by TxDOT. The number of vehicle miles traveled on the roads during a year is based on TxDOT's traffic counts, which are usually derived from sensors installed in the road. The pass-through projects can be entered into with private developers and local governments. Typically, TxDOT will only fund a portion of the total cost of the project, with the public or private developer having to fund the remaining cost. One key feature of the Texas pass-through program is that once the project is in operation, TxDOT guarantees a minimum annual payment, regardless of traffic flows. In the case of Bexar County, the total cost of its pass-through projects (Culebra and Blanco roads) is estimated at $64.46 million. The pass-through agreement specifies that TxDOT's contributions to the county's projects will not exceed $37.5 million, or approximately 58% of the total cost of the projects. Upon substantial completion of the project, TxDOT will reimburse the county at a rate of 10 cents per vehicle-mile traveled. However, the agreement specifies that regardless of the actual rate of vehicle traffic, annual pass-through payments to the county will not be less than $3,752,760 and no more than $7,505,520, and will continue until the total amount of the payments equals the county's contribution.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of 15-Jun-2010)		
Bexar Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Bexar Cnty GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.