Bexar County, Texas

Limited Tax Bonds
New Issue Report

Ratings

New Issue

Combination Tax and Revenue Certificates of Obligation, Series 2013	AAA
Outstanding Debt	
Limited Tax Bonds	AAA
Unlimited Tax Bonds	AAA

Rating Outlook
Stable

Related Research
Bexar County, TX (December 2012)

Fitch Affirms Bexar County, TX Venue Tax Bonds at 'A+'; Outlook Stable (November 2012)

Bexar County, TX (December 2011)

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New Issue Details

Sale Information: $92,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2013, via negotiation the week of Jan. 28.

Security: An annual property tax levied against all taxable property within Bexar County, limited to $.80 per $100 taxable assessed valuation (TAV). Additionally, certificates of obligation (COs) are payable from a subordinate lien on net revenues from Bexar County's parking facilities.

Purpose: CO proceeds will be used to finance street improvements.

Final Maturity: June 15, 2043.

Key Rating Drivers

Sound Financial Management: The county's solid financial position has benefited from prudent stewardship during the recent economic slowdown, as evidenced by a multiyear approach to controlling expenditure growth and limiting the scale of structural imbalances.

Elevated Debt Ratios: The county's debt profile is characterized by an elevated overall debt burden and slow principal amortization, partially offset by its practice of fully funding annual pension contribution requirement and historical reliance on conservative debt instruments.

Stable Economy: The county's population growth remains rapid. Although the local economy has diversified notably, the military remains a major economic factor. The local economy is benefitting from rapid employment gains, enabling the county's unemployment rate to remain well below state and national averages despite robust labor force increases.

Stalled Tax Base Gains: Slower residential building activity and modest tax base declines stalled previously rapid tax base growth. However, Fitch Ratings expects that the area's affordable home prices, ample developable land, and surging oil and gas activity at the nearby Eagle Ford Shale will aid the area's ongoing recovery.

Rating Parity: The limited tax GOs (LTGOs) are rated on par with the unlimited tax GOs due to the significant rate raising flexibility under the rate limitation supporting the LTGOs. The county currently levies a combined $0.29 operations and debt service tax rate compared to the limit of $0.80.

Rating History — Unlimited Tax Bonds

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	1/23/13
AAA	Affirmed	Stable	12/5/11
AAA	Affirmed	Stable	9/14/11
AAA	Affirmed	Stable	7/9/10
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

Rating History — Limited Tax Bonds

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	1/23/13
AAA	Affirmed	Stable	12/5/11
AAA	Affirmed	Stable	9/14/11
AAA	Affirmed	Stable	7/9/10
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

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Tax-Supported Rating Criteria (August 2012)

General Fund Summary

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

	2007	2008	2009	2010	2011
Revenues	299,554	312,691	319,254	327,190	324,926
Expenditures	278,589	312,679	316,698	315,951	312,995
Net Change	**20,965**	**12**	**2,556**	**11,239**	**11,931**
Transfers In/Other Sources	416	108	18	44	3
Transfers Out/Other Uses	(16,215)	(2,366)	(5,429)	(5,208)	(5,641)
Net Income	**5,166**	**(2,246)**	**(2,855)**	**6,075**	**6,293**
Total Fund Balance	53,893	51,489	48,635	54,710	61,003
As % of Expenditures and Transfers Out	18.3	16.3	15.1	17.0	19.1
Unreserved Fund Balance	53,231	50,100	48,062	53,965	—
As % of Expenditures and Transfers Out	18.1	15.9	14.9	16.8	—
Unrestricted Fund Balance[a]	—	—	—	—	55,724
As % of Expenditures and Transfers Out	—	—	—	—	17.5

[a]Sum of committed, assigned, and unassigned per GASB 54. Note: Numbers may not add due to rounding.

Credit Profile

Bexar County, with an estimated 2012 population of 1.7 million, is home to San Antonio (GO bonds rated 'AAA' with a Stable Rating Outlook by Fitch), the seventh largest city in the U.S.

Military Still Important within Diverse Economy

Military and government sectors are prominent with four large military installations located within the county. Fitch views such military reliance cautiously, although the county has benefitted substantially from recent realignment and base closure decisions. Other leading employment sectors include domestic and international trade, convention and tourism, medical and healthcare, financial services, and telecommunications.

Eagle Ford Shale Affects Employment Base

The ongoing recovery from the last recession has been aided by recent employment hikes in the leisure/hospitality sector and the construction/mining sector, fueled by surging oil and gas activity within the nearby Eagle Ford Shale. As a result, the county's October 2012 unemployment rate of 6.0% still compares favorably to state and national averages of 6.2% and 8.1%, respectively, for the same period.

Stalled Tax Base Growth

Tax base growth flattened in fiscal 2011, following three years of double digit growth, due to the steep building downturn and falling base values during the last recession. The modest 1.2% decline in fiscal 2012 was recovered in fiscal 2013 and county officials are conservatively projecting modest rates of TAV growth beyond fiscal 2013. About 70% of general fund revenue is derived from ad valorem taxes.

Property Value Trends

($000, Fiscal Year Ended Sept. 30)

Year	Taxable Assessed Valuation	% Change
2001	41,870,592	—
2002	45,800,671	9.4
2003	49,789,196	8.7
2004	52,734,890	5.9
2005	57,047,025	8.2
2006	60,273,124	5.7
2007	65,437,181	8.6
2008	74,916,972	14.5
2009	86,921,986	16.0
2010	97,312,378	12.0
2011	98,569,847	1.3
2012	97,432,199	(1.2)
2013	98,919,273	1.5

Strong Financial Profile

The county's financial position remains strong, boosted by a multiyear strategy to cut general fund expenditures starting in fiscal 2009 in order to minimize any budget gaps by fiscal 2011. This proactive approach enabled the county to maintain its reserves above its 10% fund balance policy level despite sluggish tax base trends during the economic slowdown.

The county posted a solid operating surplus after transfers in fiscal 2011 equal to 2.0% of general fund spending and increased its unrestricted fund balance to $55.7 million, or 17.5% of spending. Unaudited fiscal 2012 results point to a modest operating surplus after transfers, aided by the county's practice of budgeting contingency appropriations, resulting in an unrestricted fund balance that is approximately 19% of spending. Notably, the fiscal 2012 budget included a net reduction of 228 positions (4.8% of county workforce) and included contingency appropriations, equal to 3.6% of total appropriations.

Public safety expenses dominate the general fund budget, with 50% of appropriations for law enforcement and jail operations. Average annual expenditure growth of 3.0% just outpaced 2.1% revenue growth from fiscal years 2007–2011. Fitch views favorably the county's success in controlling expenses starting in 2009; fiscal 2011 expenditures returned to fiscal 2008 levels.

The adopted fiscal 2013 budget is balanced at a level tax rate, increases general fund appropriations by a manageable 4.0% over estimated fiscal 2012 expenditures, and continues the practice of appropriating meaningful contingencies ($14.6 million, or 4.3% of total appropriations).

Appropriation increases are led by a new collective bargaining agreement with the deputy sheriffs, totaling $23 million over three years and contributing to 1.6% of the 4.0% growth in spending between fiscal years 2012 and 2013. All other county employee pay is determined annually and a 3% COLA was adopted for fiscal 2013.

Elevated Debt Ratios

The county's debt profile is characterized by a high overall debt burden due to substantial debt issuances by the county's large number of overlapping jurisdictions. Overall debt has also risen due to declining state support for local school district debt as a result of rising property values in recent years. This trend has increased the effective overall debt level for the county, which includes 15 different school districts. Including the current offering, the principal amortization of property tax-supported debt is below average at 28% in 10 years. The current offering is not projected to require an increase to the debt service tax rate.

Debt Statistics

($000)

This Issue	92,000
Outstanding Debt	
GO debt	962,710
Other debt	214,600
Direct Debt	1,269,310
Overlapping Debt[a]	7,739,943
Total Overall Debt	9,009,253
Debt Ratios	
Net Direct Debt Per Capita ($)[b]	723
As % of Market Value[c]	1.1
Overall Debt Per Capita ($)[b]	5,130
As % of Market Value[c]	7.9

[a]Adjusted to reflect state support for local school district debt. [b]Population: 1,756,153 (est. 2012). [c]Market value: $114,664,249?,000? (2013). Note: Numbers may not add due to rounding.

Large Future Debt Plans

The county has issued more than half of its planned $680 million in nonvoter approved COs 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 now issues the debt directly, although SARA continues to provide technical assistance and manage the main river project.

Planned issuances for drainage improvements of $75 million in each of the next two years will keep the county's debt ratios elevated. However, management reports that its goal is to maintain a modest level debt service tax rate of under $0.05 per $100 TAV which Fitch views positively. Annual issuances of $20 million for general capital improvements are also planned in each of the next two years.

Manageable Pension and OPEB Costs

The county and all of its full-time employees contribute to a statewide agent multiple-employer defined benefit pension plan administered by the Texas County and District Retirement System. The county fully funds the annual required contribution, leading to an adequate 76% funded position, adjusted to reflect Fitch's assumption of a 7% rate of return, as of Dec. 31, 2010. The county's other post-employment benefits (OPEB) are modest and funded on a pay-as-you-go basis. Carrying costs for the county's debt service, pension annual required contribution and OPEB payments is elevated at 22.8% of fiscal 2011 general fund spending.

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MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aaa rating to Bexar County's (TX) $92 million Certificates of Obligation Series 2013; Negative Outlook maintained

Global Credit Research - 23 Jan 2013

Rating assignment and affirmation affects $1 billion in outstanding parity debt including current issue

BEXAR (COUNTY OF) TX
Counties
TX

Moody's Rating

ISSUE	RATING
Combination Tax and Revenue Certificates of Obligation, Series 2013	Aaa
Sale Amount $92,000,000	
Expected Sale Date 01/28/13	
Rating Description General Obligation Limited Tax	

Moody's Outlook NEG(m)

Opinion

NEW YORK, January 23, 2013 --Moody's Investors Service has assigned a Aaa rating to Bexar County's (TX) $92 million Combination Tax and Revenue Certificates of Obligation Bonds, Series 2013. The outlook on the county is negative. At the same time, Moody's has affirmed the Aaa on the county's outstanding unlimited tax and limited tax debt affecting $34 million and $1 billion respectively. Proceeds from the sale of the bonds will be used to make needed capital improvements throughout the county.

SUMMARY RATING RATIONALE

The certificates are secured by an annual ad valorem tax levied on all taxable property in 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 rating assignment and affirmation reflects the county's large and stable regional economy that is driven by diverse industries despite being challenges by low socioeconomic indices, taxable values that have recovered following a modest decrease in 2011, prudent financial management that includes multiyear forecasting and conservative budget estimates that have historically yielded more positive operations despite significant pension and OPEB liabilities, tax rates that remain well below the statutory cap, and a debt burden that is modest but slightly above the median for similarly rated credits.

Moody's negative outlook on Bexar County's Aaa rating is due to its indirect linkages to the weakened credit profile of the U.S. government. The negative outlook relates to Moody's August 2 decision to confirm the Aaa government bond rating of the United States and assign a negative outlook, and to our December 7 assessment of Bexar County's exposure to indirect linkages to the federal government. Moody's has determined that issuers with indirect linkages, such as Bexar County, have some combination of economies that are highly dependent on federal employment and spending, a significant healthcare presence in their economies, have direct healthcare operations, or high levels of short-term and puttable debt. Please see the special comment from December 7, 2011 entitled "Most Aaa-Rated State and Local Governments Revert to Stable Outlooks, Despite Negative Pressure on U.S. Government Rating" for more information.

STRENGTHS

Sizeable regional economy that remained relatively stable through economic downturn

Prudent financial management practices demonstrated by conservative budgeting that yield more positive operations; satisfactory reserves

Flexibility with tax rates that remain well under the statutory cap

CHALLENGES

Low demographic indicators

Operating pressures associated with large population and demand for services

DETAILED CREDIT DISCUSSION

AREA ECONOMY IS RELATIVELY STABLE; SOCIODEMOGRAPHIC PROFILE REMAINS BELOW NATIONAL LEVELS

The county has historically demonstrated healthy growth patterns driven primarily by the diverse economy of the City of San Antonio (Aaa/negative outlook). Although the county's large tax base expands beyond San Antonio's boundaries, a majority of its values are coterminous with the city as approximately 74% of the county's ad valorem value is captured within San Antonio's boundaries. The local economy is diverse with industries including a mix of military, tourism, financial, healthcare and aerospace industries. The county has also reported strong migration patterns with population growing by 23.1% to 1.7 million over the prior decade as reported by the 2010 U.S. Census. This compares with the 17.5% increase over the previous decade reported by the 2000 U.S. Census. Despite the influx of residents, unemployment levels within the county have tracked below state and national levels through the economic downturn. In October 2012, the county's unemployment rate of 6% remained below the state's 6.3%, and nation's 7.5% taken during the same time period. Although the economy is diverse, concentration exits with three of the top ten employers being military installations, accounting for a total employment of approximately 85,000 (10.5% of the total labor force). Other major employers include companies in the health care, retail, and education industries, as well as a local government. Increased military presence has occurred within the county as the military bases benefited from the Defense Department's Base Realignment and Closure (BRAC) activities. As a result of the recent BRAC realignments that began in 2006, over $3 billion in construction projects have been undertaken and more than 12,000 military personnel added. In addition to military expansions, which have been largely focused on medical facilities for treatment and training, other non-military medical development is also contributing to local economic activity and provides for construction employment. Ongoing military expansions will continue to bolster construction and employment activity with more than $1 billion in post-BRAC projects slated for completion.

Other economic activity is provided by the Toyota plant which recently expanded plant operations to include the manufacturing of Tacomas, adding an additional 1,000 jobs. In addition to the Toyota plant, there are 21 Toyota suppliers located in the Supplier Park. Tacoma production begun in 2010 and once in full production, over 5,000 manufacturing jobs are expected to be located in the Toyota Supplier Park from both Toyota and its onsite suppliers. Other large companies are headquartered in San Antonio including Valero, Tesoro, Clear Channel, and Nustar Energy which reflects a dynamic business environment. Tourism activity also supports employment and has remained relatively stable as an attractive and affordable travel destination. Exploration of the Eagle Ford Shale will add diversity to the employment base. In 2011, Halliburton broke ground on a $50 million facility which is expected to add about 1,500 jobs to the area. Several other oil and gas developments are expected to follow.

The county's socioeconomic indices are below national levels with the county's per capita income and median family income at 88.5% and 85% respectively of national levels, per the 2010 American Community Survey. However, the low levels are partly mitigated by a low cost of living, and relatively stable employment. Per the November 2012 Moody's Economy.com report, San Antonio's economy will transition from recovery to expansion in the coming year, supported by gains in tourism, local government, housing and continuing development of Eagle Ford Shale. Additionally, the concentration of military cyber security and medical activity, growth in commercial aerospace, and above average population increases will contribute to above average performance.

TAXABLE VALUES SHOW RECOVERY FOLLOWING DECLINE IN 2011

As noted above, the county's base is sizeable with taxable values totaling $98.9 billion in fiscal year 2013. Prior to the economy downturn, taxable values showed strong growth averaging 11.1% between fiscal years 2004 and 2010, before declining 1.2% in 2011. Since then, taxable values have returned to positive growth of 0.1% and 1.6% in fiscal years 2012 and 2013, resulting in a five year average of 5.6% annually. The county is largely residential with single family residences accounting for 54.1%, and commercial and industrial values accounting for 19.4% of total values in 2013. We believe that the size and diversity of the tax base remains consistent with the Aaa rating assignment despite recent challenges to growth driven by the national recession.

RECENT GROWTH IN RESERVES REFLECT PRUDENT MANAGEMENT; GENERAL FUND PRESSUED BY HEALTH CARE COSTS; PENSION AND OPEB OBLIGATIONS EXIST

The county's reserve levels have significantly improved within the past two years due to prudent management and budget reductions resulting in positive operations. Following the draws in fiscal years 2008 and 2009 for capital and operating needs respectively, the county reported positive operations in fiscal years 2010 and 2011, growing the General Fund balance by $12.4 million on an aggregate level to a total of $61 million (18.8% of General Fund revenues). The unassigned portion was $55.7 million (17.1% of General Fund revenues). The county's financial history includes conservative budgeting with revenues being underestimated and expenditures being overestimated, resulting in utilizing draws to balance the budget. For example, in fiscal year 2011, the county adopted a budget that included a draw of $7.3 million, which would have reduced the fund balance to $47.4 million. However, actual numbers yielded a surplus of $6.3 million resulting in a balance of $61 million. In fiscal year 2012 the budget included a draw $11.6 million to $49.4 million. However, unaudited numbers indicate a surplus of $2.7 million to $63.8 million (a favorable 19.6% of General Fund revenues). In addition to conservative budgeting, officials attribute the positive operations to contingencies built into the budget. The fiscal year 2013 budget included a draw of $14 million due to rising health care costs. Year to date, officials report that 42% of the revenues have been received while 21% of the budget has been expended. The county receives majority of its revenues within the first two quarters dues to the receipt of property taxes, the primary revenue source. The county's five year financial plan includes a steady reduction in reserves to the 10% level, the minimum per its policy, in the fourth year. The draws reflect conservative estimates as well as ongoing challenges the county faces with rising health care costs. Although the county has consistently remained above the minimum reserve level, we note that a multiyear trend of drawing reserves is a credit negative and could limit the county's financial flexibility. The county's history of sound financial management and maintenance of reserves has been key to the Aaa rating. A reversal of this trend could pressure the rating downward.

Bexar County's health care insurance is self funded. The county continues to grapple with rising health care costs with the fund reporting deficits, which has been cured by the General Fund, in fiscal years 2010 and 2011. In fiscal year 2011, the fund reported a $3.1 million reduction in net assets resulting in a negative ending net asset position of $5.7 million. Effective January 1st 2013, the county implemented a change in the plan design which increased contribution from employees and reduction co-insurance. Officials believe this will result in savings of $5 million annually with fiscal year 2014 reporting the first full annualized savings. We believe the health care fund posses some pressure to the General Fund and will continue to monitor the effect of the plan change on the General Fund's liquidity.

The county participates in the statewide Texas County and District Retirement System (TCDRS), and has historically contributed 100% of its annual pension cost (APC). In fiscal year 2011, the county's APC was $22.8 million, (7% of General Fund revenues). As of December 31, 2010, the most recent actuarial valuation date, the plan was 84.7% funded with an unfunded liability of $111.1 million. The county also offers Other Post Employment Benefits (OPEB) in the form of health care to retirees. In fiscal year 2011, the county funded 51.3% of its annual OPEB cost. If the county has funded 100% of its cost, the surplus reported would have reduced to $717,240. As of October 1, 2010, the most recent actuarial valuation date, the plan was 0% funded, resulting in an unfunded liability of $159.2 million. The plan is currently funded on a pay as you go basis and officials expect this will continue over the near to medium term.

DIRECT DEBT BURDEN EXPECTED TO REMAIN AFFORDABLE; AMPLE FLEXIBILITY WITH TAX RATES

The 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. Within the $8.00 tax rate cap, up to $4.00 may be allocated for debt service requirements. Under this cap for debt service, the county levies a low $0.75 per $1,000 of assessed valuation, providing for significant taxing margin. The county also received voter authorization to levy $1.50 per $1,000 of assessed valuation for flood control projects. The county has historically levied well below the margin and the current tax rate is $0.33 per $1,000 of assessed value.

With the current issues, the county's direct debt burden remains manageable at 1.1% and the overall is elevated at 9.2% primarily due to debt of several overlapping school districts. The current capital improvement plan includes annual debt issuances largely for road and drainage improvements. Additionally, the county has authorized unissued debt of $37.3 million for various needs. Given the sizable tax base, future debt issuances will likely have minimal impact on the direct debt burden.

Outlook

Moody's negative outlook on Bexar County's Aaa rating is due to its indirect linkages to the weakened credit profile of the U.S. government. The negative outlook relates to Moody's August 2 decision to confirm the Aaa government bond rating of the United States and assign a negative outlook, and to our Dec. 7 assessment of Bexar County's exposure to indirect linkages to the federal government. Moody's has determined that issuers with indirect linkages, such as Bexar County, have some combination of economies that are highly dependent on federal employment and spending, a significant healthcare presence in their economies, have direct healthcare operations, or high levels of short-term and puttable debt. Please see the special comment from December 7, 2011 entitled "Most Aaa-Rated State and Local Governments Revert to Stable Outlooks, Despite Negative Pressure on U.S. Government Rating" for more information.

WHAT COULD MAKE THE RATING GO - UP

Not applicable

WHAT COULD MAKE THE RATING GO DOWN - DOWN

Deterioration of financial reserves; inability of the county to manage operating pressures associated with the health insurance fund

Significant contraction in the tax base

Change in the US rating that results in pressure on the county's Aaa rating

KEY STATISTICS

Population: 1,714,773

2012 Full value: $98.9 billion

Full value per capita: $57,687

Direct debt burden: 1.1%

Overall debt burden: 9.1%

Rate of principal repayment (10 years): 30.3%

FY 2011 General Fund balance: $61 million (18.8% of General Fund revenues)

Post-sale Limited Tax debt: $1 billion

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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