Bexar County, Texas

Special Tax Bonds

New Issue Report

Ratings

New Issues

Tax-Exempt Venue Project Revenue Refunding Bonds (Motor Vehicle Rental Tax), Series 2013	A+
Tax-Exempt Venue Project Revenue Refunding Bonds (Combined Venue Tax), Series 2013	A+

Outstanding Debt

Venue Project Revenue Bonds (Motor Vehicle Rental Tax)	A+
Venue Project Revenue Bonds (Combined Venue Tax)	A+

Rating Outlook

Stable

Related Research

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

Bexar County, Texas (December 2011)

Bexar County, Texas (September 2011)

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New Issue Details

Sale Information: $27,220,000 Tax-Exempt Venue Project Revenue Refunding Bonds (Motor Vehicle Rental Tax), Series 2013, and $101,230,000 Tax-Exempt Venue Project Revenue Refunding Bonds (Combined Venue Tax), Series 2013, via negotiated sale the week of Dec. 17.

Security: Motor vehicle rental tax (MVRT) bonds are payable from a first lien on motor vehicle rental taxes. Combined venue tax bonds are payable from a first lien on hotel occupancy taxes (HOT) and a junior lien on MVRT.

Purpose: To refund outstanding short-term bonds and pay costs of issuance.

Final Maturity: Both series mature Aug. 15, 2051.

Key Rating Drivers

Large, Mature Hospitality Sector: Pledged revenues benefit from Bexar County's position as the top tourist destination in Texas. MVRTs and HOTs are subject to economic volatility but benefit from the county's large convention and visitor industry, which markets to both regional and national audiences.

Low Coverage; Large Reserve: Annual debt service coverage (DSC) for the combined venue tax bonds is very thin. Fitch Ratings considers accumulated venue taxes in the capital improvement and coverage fund (CICF), which are restricted for debt service, capital improvements, or bond redemption, as a key mitigating credit factor. The current balance in the CICF is sizable, and the county has no plans to use the fund. DSC for the MVRT bonds is projected to remain sound.

Weak ABT: For both securities, in order to issue additional parity bonds, pledged revenues must be at least equal to 1.25x average annual debt service (ADS), which Fitch considers to be below average.

No Expected Operating Exposure: The county is not expecting to be responsible for the sizable operations and maintenance costs of the numerous bond-financed projects due to negotiated memorandums of understanding with nonprofit organizations. However, Fitch recognizes that these agreements may be subject to change in the medium or long term due to unforeseen circumstances.

High Community Support: The county voters' support for the venue tax extensions was notable for its high approval margin.

What Could Trigger a Rating Action

Depletion of CICF: The use of the CICF reserves for any purposes other than bond redemption would remove a significant offsetting credit strength and could lead to a negative rating action.

Rating History — Motor Vehicle Rental Tax

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	12/11/12
A+	Affirmed	Stable	11/2/12
A+	Affirmed	Stable	11/11/10
A+	Revised	Stable	4/30/10
A	Affirmed	Stable	11/17/09
A	Assigned	Stable	8/21/08

Rating History — Combined Venue Tax

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	12/11/12
A+	Affirmed	Stable	11/2/12
A+	Affirmed	Stable	11/11/10
A+	Revised	Stable	4/30/10
A	Affirmed	Stable	11/17/09
A	Assigned	Stable	8/21/08

Related Criteria

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

Tax-Supported Rating Criteria (August 2012)

Tourism Tax Revenue Trends

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

Year	Hotel/Motel Occupancy Taxes	% Change	Motor Vehicle Rental Taxes	% Change	Combined Venue Taxes	% Change
2000	6,873	—	4,450	—	11,323	—
2001	8,933	30.0	5,970	34.2	14,903	31.6
2002	9,029	1.1	5,536	(7.3)	14,565	(2.3)
2003	8,836	(2.1)	5,374	(2.9)	14,210	(2.4)
2004	9,112	3.1	5,426	1.0	14,538	2.3
2005	10,626	16.6	5,905	8.8	16,531	13.7
2006	11,558	8.8	6,864	16.2	18,422	11.4
2007	12,826	11.0	6,963	1.4	19,789	7.4
2008	13,688	6.7	7,097	1.9	20,785	5.0
2009	11,568	(15.5)	6,647	(6.3)	18,215	(12.4)
2010	12,271	6.1	7,017	5.6	19,288	5.9
2011	13,467	9.7	7,394	5.4	20,861	8.2
2012[a]	14,352	6.8	7,928	8.2	22,280	6.8

[a]Unaudited.

Credit Profile

Voter Approved Venue Taxes

In May 2008, county voters approved the extension of the existing 1.75% HOT and 5% MVRT, originally approved in 1999 to finance the construction of the AT&T Center, home of the NBA Spurs. The extended venue taxes, which are not capped or restricted for specific amateur sports or tourism projects, will finance $415 million in new tourism projects, including San Antonio River projects ($125 million), amateur sports projects ($80 million), rodeo and arena enhancements ($100 million), and cultural arts projects ($110 million).

Large Hospitality Sector Benefits Pledged Revenue Base

Pledged revenues are supported by presence of five of the state's top 10 tourist attractions, including the Alamo, the San Antonio Riverwalk, Sea World, Six Flags over Texas, and the San Antonio Zoo. After strong growth through fiscal 2008, HOT and MVRT revenues declined by 15.5% and 6.4%, respectively, in fiscal 2009, before rebounding by over 5.0% in fiscal years 2010–2011. Unaudited fiscal 2012 MVRT and HOT receipts continue on a positive trajectory, increasing by 7.2% and 6.6%, respectively.

The inventory of hotel rooms grew by a notable 26% from 2007–2011 and additional hotels are under construction (although the county's conservative forecast assumes flat pledged revenue growth, which Fitch views favorably).

Additional Parity Debt to Reduce Coverage

The current offerings will refund short-term subordinate lien bonds recently issued by the county. Post-refunding, over 82% of the planned venue tax CIP will have been funded, leaving $75 million in remaining bond authorization, all of which will be secured by the combined venue tax pledge.

Including the current offering, ADS coverage declines to a minimum of 1.4x for the MVRT bonds based on unaudited fiscal 2012 revenues, which Fitch considers adequate for the rating level. However, ADS coverage of the combined venue tax bonds declines to a notably thin 1.15x by 2014. The county's 1.25x additional bonds test, which Fitch considers below average, is based on average ADS and is met successfully due to a solid 6.8% unaudited gain in combined receipts in fiscal 2012.

Large Reserves Buffer Thin Coverage

The CICF totaled $62.5 million at the beginning of fiscal 2012, equal to over four years of debt service payments. The CICF can only be used for debt service, capital improvements, and bond redemption, which Fitch's considers a key offsetting credit strength to thin coverage levels of the combined venue tax bonds. The CICF reserves are especially important under Fitch's stress scenarios in which revenues experience declines equal to those posted during the 2009 recession. The maintenance of large CICF reserves will remain paramount, given the county's plan to issue $75.0 million in remaining combined venue tax bonds by 2016.

No Operating Impact to County

Fitch also notes that the county does not expect to be responsible for the sizable operations and maintenance (O&M) costs of the numerous bond-financed projects. O&M costs have been addressed through negotiated memorandums of understanding with nonprofit organizations, although Fitch notes that such arrangements could evolve over time.

Broad and Expansive Economy

Bexar County, with an estimated 2012 population of 1.8 million, is home to San Antonio. The local economy is broad, consisting primarily of military and government employment, domestic and international trade, convention and tourism, medical and healthcare, financial services, and telecommunications.

Income levels are generally about 10% lower than the U.S. average but only slightly less than the state average. However, growth in area income over the past few years has exceeded state and national norms, although the current economic slowdown has slowed this trend. Several major commercial and military projects have helped stabilize or restore economic growth, including the $3.2 billion San Antonio Military Medical Center, which was accompanied by approximately 12,500 additional military personnel to the county.

Aided by considerable growth in the energy sector, the county's unemployment rate, which totaled 6.0% in October 2012, has declined notably from 12 months prior (7.4%) and remains modestly below the state average but well below the national average.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Moody's INVESTORS SERVICE

New Issue: Moody's assigns A1 rating to Bexar County's (TX) $101.2 million Tax-Exempt Venue Project Revenue Refunding Bonds (Combined Venue Tax), Series 2013, and $27.2 million Tax-Exempt Venue Project Revenue Refunding Bonds (Motor Vehicle Rental Tax), Series 2013;

Global Credit Research - 13 Dec 2012

A1 rating affects $85.3 million in Motor Vehicle Rental Tax debt, and $245.8 million in Combined Venue Tax debt including the current issues

BEXAR (COUNTY OF) TX
Counties
TX

Moody's Rating

ISSUE		RATING
Tax-Exempt Venue Project Revenue Refunding Bonds (Combined Venue Tax), Series 2013		A1
Sale Amount	$101,230,000	
Expected Sale Date	12/17/12	
Rating Description	Special Tax: Non-Sales/Non-Transportation	
Tax-Exempt Venue Project Revenue Refunding Bonds (Motor Vehicle Rental Tax), Series 2013		A1
Sale Amount	$27,220,000	
Expected Sale Date	12/17/12	
Rating Description	Special Tax: Non-Sales/Non-Transportation	

Moody's Outlook NEG(m)

Opinion

NEW YORK, December 13, 2012 --Moody's Investors Service has assigned an A1 rating to Bexar County's (TX) $101.2 million Tax-Exempt Venue Project Revenue Refunding Bonds (Combined Venue Tax), Series 2013, and $27.2 million Tax-Exempt Venue Project Revenue Refunding Bonds (Motor Vehicle Rental Tax), Series 2013. At the same time, Moody's has affirmed the A1 rating on the county's outstanding debt affecting $144.6 million in Combined Venue Tax debt, and $58.1 million Motor Vehicle Rental Tax debt, net of the current issue. The outlook on the motor vehicle rental tax is stable while the outlook on the combined venue tax remains negative. Proceeds from the sale of the Combined Venue Tax (CVT) will be used to refund the short term bonds (Aug 2013 maturity) issued by the county in the earlier part of the year. Proceeds from the sale of the Motor Vehicle Rental Tax (MVRT) bonds will be used to refund the short term bonds issued by the county in the earlier part of the year.

SUMMARY RATINGS RATIONALE

The CVT bonds are secured by a first lien on the hotel occupancy tax received, as well as a junior lien (2nd) on the county's motor vehicle rental tax. The MVRT bonds are secured by a first lien on the motor vehicle rental tax. Assignment and affirmation of the A1 rating reflects improved revenues following a sharp decline in fiscal year 2009, satisfactory debt service coverage, medium term issuance plans, and a strong management team. The rating also incorporates additional liquidity in the Capital Improvement and Coverage funds, though not pledged but available, which provides additional liquidity. Additionally, the rating incorporates the credit fundamentals of the county.

The stable outlook on the MVRT bonds reflects the favorable debt service coverage when including the new sale. The negative outlook on the CVT bonds reflects narrow debt service coverage that is slightly above sum sufficient when given the effect of the current issue

STRENGTHS

Strong management team in a Aaa rated county

Large and healthy economy supporting pledged revenues

CHALLENGES

Future debt plans require slow repayment of debt

Weakened MADS coverage on the CVT bonds following issuance

DETAILED CREDIT DISCUSSION

A1 RATINGS BENEFIT FROM COUNTY'S SIGNIFICANT TOURISM

On May 10, 2008, voters approved a large capital improvement plan (CIP) for various special improvements including arena and ground improvements, amateur sports facilities and performing arts and cultural facilities.

The county includes the city of San Antonio (Aaa/negative outlook) and the arena hosts the NBA Spurs. The other improvements that are part of the CIP are intended to aid in the growth and vitality of the downtown area. Existing attractions in the city of San Antonio such as The Alamo, Riverwalk, Sea World, Six Flags, and others continue to drive tourism. Despite increasing the number of rooms available over the last ten years, the occupancy rate has remained consistent averaging 64%. The consistent occupancy rate, despite increased rooms, reflects the increased demand for rooms related to increased tourism.

IMPROVED REVENUES FOLLOWING SHARP DECLINE IN FISCAL YEAR 2009

The pledged 1.75% hotel occupancy tax (HOT) is collected by the city of San Antonio and the 5% motor vehicle and rental tax (MVRT) is collected by the State. The taxes were originally approved by voters in 1999 in order to construct various venues in the county. The county began collecting these taxes in 2000 and Moody's notes that revenues decreased in 2001 and 2003 following September 11th. Between the 2004 and 2008 fiscal years, the HOT and MVRT revenues increased an average of 9.6% and 6.7% respectively, on an annual basis. However, given the high sensitivity to fluctuations in national and local economic trends, the HOT and MVRT revenues decreased 15.5%, and 6.4% respectively, from the prior year. Subsequently, HOT revenues increased 6.1% in 2010 and 9.8 % in 2011 while MVRT revenues increased 5.6% in 2010 and 5.4% in 2011. Fiscal year 2012 presents another strong year with HOT and MVRT revenues increasing by 6.6% and 7.2% respectively. We believe the growth rate is strong, following the significant decline in fiscal year 2009, reflecting strong demand for hospitality related activities.

WEAKENED BUT SATISFACTORY DEBT SERVICE COVERAGE; ADDITIONAL LIQUIDITY PROVIDED BY CICF

In fiscal year 2011, the HOT revenues totaled $13.5 million and MVRT revenues were $7.4 million. Debt service coverage on MVRT debt (senior lien) was healthy at 4.06 times. Excess MVRT revenues available for debt service after paying senior lien debt was $5.6 million. Including available MVRT revenues, a $1.3 million Spurs payment (pledged to the taxable Series 2008 MVRT bonds only), and HOT revenues, fiscal year 2011 coverage on CVT debt was 2.45 times. Since 2011, recent and project debt service coverage, especially on the CVT bonds, have weakened due to additional debt issuance with fiscal year 2012 coverage on MVRT and CVT bonds at 2.25 times and 1.87 times respectively, based on unaudited numbers. Following the current issues, the maximum annual debt service (MADS) for the MVRT bonds is scheduled for 2026 and unaudited fiscal year 2012 numbers will provide coverage of 1.67 times which we believe is satisfactory. For the CVT bonds, MADS is scheduled for 2015, and unaudited fiscal year 2012 numbers will provide coverage of 1.13 times, which we believe is narrow. Currently, the county does not have any debt issuance plans for the next two years. Moody's will continue to monitor the revenue sources noting the impact of additional debt in the medium term.

The flow of funds for the bonds is closed loop and excess revenues have been accumulated in a Capital Improvement ant Coverage Fund (CI&CF) which provides additional liquidity and security for bond holders, although the fund is not pledged to debt service. Based on unaudited fiscal year 2012 numbers, the fund had a total of $62.5 million.

NO NEAR TERM ISSUANCE PLANS

In May of 2008, the county received approval from voters to issue up to $415 million in projects secured by venue taxes. With the current issues, the county has satisfied all of the financing for the projects from the 2008 election. Proceeds of the current sale will be used to totally refund outstanding MVRT and CVT subordinate lien bonds. Currently, officials report there are no issuance plans through fiscal year 2015.

As noted above, we believe the revenue stream is already leveraged which is incorporated in the negative outlook. Although we believe that county officials will remain mindful of any fluctuations in pledged revenues and will take into account any variances when issuing future debt, future debt issuance plans absent this consideration could result in downward pressure on the rating.

SATISFACTORY LEGAL PROVISIONS

The additional bonds test is adequate and consistent with the expectations at this rating level requiring 1.25 times average annual debt service on both the MVRT and CVT respectively. The debt service reserve for both securities is equal to average annual debt service and will be cash funded with the issue.

OUTLOOKS

The negative outlook on the long term A1 rating for the CVT bonds reflects our belief that the pledged revenues provide narrow MADS coverage. Future debt issuances that weakened current coverage ratios could result in downward rating action.

The stable outlook on the long term A1 rating for the MVRT bonds reflects our belief that coverage ratios remain favorable on the bonds. Although additional issuances have weakened the coverage, we believe that current and projected debt service coverage is healthy and will remain so over the medium term.

WHAT COULD MAKE THE RATING GO UP (REMOVE NEGATIVE OUTLOOK ON CVT BONDS)

Strengthening in legal provisions

Trend of significant improvement in debt service coverage

WHAT COULD MAKE THE RATING GO DOWN

Weakening in legal provisions

Trend of declining debt service coverage

KEY STATISTICS:

2011 1.75% HOT revenues: $13.5 million

2011 5% MVRT revenues: $7.4 million

HOT five year average growth: 2.5%

MVRT five year average growth: 1.4%

Combined Venue Tax MADS coverage (post-refunding current issue into long term) including Spurs payment: 1.13 times

Motor Vehicle Rental Tax MADS coverage including Spurs payment: 1.67 times

Senior Lien Combined Venue Tax bonds outstanding: $245.8 million

Senior Lien Motor Vehicle Rental Tax bonds outstanding: $85.3 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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