

RatingsDirect®

Summary:

Bexar County, Texas; General Obligation

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US\$350.0 mil comb tax and rev certs of oblig ser 2013B dtd 07/15/2013 due 06/15/2043

<i>Long Term Rating</i>	AA+/Stable	New
Bexar Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Bexar County, Texas' series 2013B combination tax and revenue certificates of obligation. At the same time, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the county's general obligation (GO) debt outstanding. The outlook on all ratings is stable.

The ratings reflect our view of the county's:

- Diverse economy, which has a strong military and tourism presence, with a growing presence of various other sectors;
- Very diverse property tax base;
- Very strong financial position; 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 certificates of obligation. Further security is provided by a subordinate lien on and pledge of certain net revenues derived from the operation of the county's parking facilities. County officials will use certificate proceeds primarily to fund capital improvement projects related to county facilities, to fund technology-related costs, to purchase vehicles replacement and equipment purchases, and to purchase energy conservation equipment for the county.

The approximately 1,248-square-mile county is located in south-central Texas and encompasses 21 incorporated cities, including San Antonio, which is the county's seat and main economic engine. With a population of about 1.7 million, the county remains the state's fourth most populous county. The military continues to provide significant strength and stability to the local economy with an annual economic impact of more than \$13 billion. Tourism also continues to thrive in the county, with attractions that draw millions of visitors each year. The recent expansion of the San Antonio Riverwalk, a major tourist attraction in the county, has spurred continued development and recreational improvements around the expansion sites. The growing presence of medical and biomedical companies and of financial institutions has helped to diversify the economy beyond the traditional military and tourism anchors. Eight financial institutions are headquartered in San Antonio as well as four regional headquarters. In addition, Toyota Motor Corp. operates a truck manufacturing facility in San Antonio with more than 2,000 employees.

Primary employers in the county for 2011 included:

- Lackland Air Force Base (38,776 employees),
- Fort Sam Houston - U.S. Army Base (30,585),
- H.E.B. Food Stores (18,066),
- Northside Independent School District (16,567),
- Randolph Air Force Base (16,017), and
- USAA (15,000).

The county, particularly the southern portion, continues to benefit from the booming oil and gas production from the Eagle Ford Shale. In addition to adding several hundred new jobs either directly with oil and gas sector jobs or indirectly in related or supporting fields, the shale has attracted several companies, including Baker Hughes and Halliburton, to establish sites in the county. In order to increase distribution, the railroad has also expanded. Aside from the surge of oil and gas production, several existing companies within the county have plans for expansion, such as USAA, which announced earlier this year that it planned to add about 1,000 new jobs. Maruchan, an American producer of products such as ramen noodles, is in the process of constructing a noodle factory in the county that is expected to generate about 500 new jobs. In addition, construction continues of various multifamily housing and mixed-use development projects in and around the downtown area.

The county's net taxable assessed value (AV) increased substantially in the years leading up to fiscal 2010 when net AV reached approximately \$98.57 billion. AV declined slightly in fiscal 2011 by about 1%, then increased by a cumulative 1.6% in fiscal years 2012 and 2013 to approximately \$98.92 billion. The 10 leading property taxpayers in the county account for 4% of AV, which we consider very diverse. Wealth lags state and national levels, but has been improving overall. Fiscal 2012 estimated market value was strong, in our opinion, at \$55,395 per capita, up from \$48,298 in fiscal 2007. Per capita effective buying income is adequate, in our view, at 87% of the national level.

Bexar County's financial position remains very strong, in our view. The county ended fiscal 2012 with a total available general fund balance (a combination of assigned and unassigned general fund balances) of approximately \$62.22 million, or 19.9% of operational expenditures, which we consider very strong. This ending fund balance reflects an approximately \$6.3 million surplus in the general fund. For the current year, fiscal 2013, county officials conservatively anticipate ending the year with a total available general fund balance of approximately \$65 million. For fiscal 2014, the county plans to adopt a balanced budget. The county continues to levy a total ad valorem tax rate of about 32.69 cents per \$100 of AV.

The county provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System. As of Dec. 31, 2011 the county's actuarial value assets as a percent of actuarial accrued liability was 83.92%, with an unfunded accrued liability of approximately \$125.23 million. The county's annual required pension contribution (ARC) for the year ended Sept. 30, 2012 totaled approximately \$23.56 million, 100% of which the county contributed; the ARC represented about 3.5% of fiscal 2012 total governmental expenditures. An actuarial study (the county's third so far) was performed in September 2011, and showed that as of Oct. 1, 2010 the county's unfunded actuarial accrued liability for other postemployment benefits (OPEBs) was approximately \$159 million and the county's ARC was \$11.55 million. The county has continued to explore cost mitigation strategies and to develop a full funding plan to meet its OPEB liabilities.

Bexar County's practices are considered "strong" under Standard & Poor's financial management assessment (FMA) 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 commissioner's 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.

The county's net direct debt burden is very low, in our opinion, at just 1.2% 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, in our view, moderately high as a percent of market value, at 8.5%, and moderate on a per capita basis, at \$4,713. Debt service carrying charges in fiscal 2012 accounted for 14.22% of expenditures, which we consider moderate. We understand that the county has no plans to issue additional GO debt for at least the next 24 months.

Outlook

The stable outlook reflects our anticipation that the county will continue to meet its stated reserve policy during the two-year outlook time frame. It is unlikely that we could change the ratings during the next two years. However, the continued improvement of the county's underlying economic indicators and the county's effective management of ongoing capital needs could place positive pressure on the ratings.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of July 3, 2013)		
Bexar Cnty GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
San Antonio River Auth GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
San Antonio River Auth, Texas		
Bexar Cnty, Texas		
San Antonio River Auth (Bexar Cnty) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
San Antonio River Auth (Bexar Cnty) channel imp rev bnds ser 2002 dtd 05/15/2002 due 07/01/2003-2025 2027 2029 2032		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Summary: Bexar County, Texas; General Obligation

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Bexar County, Texas

Limited Tax Bonds New Issue Report

Ratings

New Issue

Combination Tax and Revenue
Certificates of Obligation, Series
2013B AAA

Outstanding Debt

Limited Tax Bonds AAA
Unlimited Tax Bonds AAA

Rating Outlook

Stable

New Issue Details

Sale Information: \$355,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2013B, via negotiation the week of July 8.

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

Purpose: CO proceeds to finance various public 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.

Weak Debt Profile: The county's debt profile is characterized by a high overall debt burden and slow principal amortization. However, the county fully funds the annual pension contribution requirement, its debt service tax rate is modest, and carrying costs do not present an undue burden on resources.

Stable Economy: Population growth remains rapid. Although the local economy has diversified notably, the military remains a major economic factor that could be affected negatively by the unfolding sequestration of federal funds. 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 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 bonds are rated on par with the unlimited tax bonds due to the significant rate-raising flexibility under the rate limitation supporting the limited tax bonds. The county currently levies a combined \$.29 operations and debt service tax rate compared to the limit of \$.80.

Rating Sensitivities

Unmitigated Debt Pressures: Rising debt beyond current expectations without offsetting strengths in other credit factors could pressure the rating.

Related Research

Bexar County, TX (April 2013)
Bexar County, TX (January 2013)
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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Rating History — Unlimited Tax Bonds

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	6/28/13
AAA	Affirmed	Stable	4/12/13
AAA	Affirmed	Stable	1/24/13
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	6/28/13
AAA	Affirmed	Stable	4/12/13
AAA	Affirmed	Stable	1/24/13
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

Credit Profile

Bexar County, with an estimated 2013 population of 1.7 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.

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. Relative to the larger economy, the projected impact of federal sequestration on civilian military employment is modest. However, the impact of sequestration on military contracts with the area's defense industry is still unfolding. 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 past recession has been aided by recent employment hikes in the leisure/hospitality and construction/mining sectors, fueled by surging oil and gas activity within the nearby Eagle Ford Shale. As a result, the county's April 2013 unemployment rate of 5.8% still compares favorably to state and national averages of 6.1% and 7.1%, respectively, for the same period.

Stalled Tax Base Growth

Tax base growth flattened in fiscal 2011 following numerous years of double-digit growth, due to the steep building downturn and falling base values during the past recession. The modest 1.6% decline in fiscal 2012 was recovered in fiscal 2013 and compares favorably to management's conservative forecast of a second 1.6% decline. The preliminary TAV estimate for fiscal 2014 is positive, indicating a \$6.6 billion, or 6.7% increase due entirely to new construction. Net of estimated property value protests, a still solid 4.7%–5.7% gain is anticipated by the county. County officials are conservatively projecting modest rates of TAV growth beyond fiscal 2014. About 70% of general fund revenue is derived from ad valorem taxes.

Property Value Trends

(\$000, Fiscal Year Ending Sept. 30)

Year	Taxable Assessed Value (TAV)	% 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
2014 ^a	104,537,567	5.7

^aPreliminary TAV less \$1 billion in successful property tax appeals.

Related Criteria

Tax-Supported Rating Criteria (August 2012)

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

Strong Financial Profile

The county's financial position remains strong, boosted by a multiyear strategy to control growth or reduce 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