FitchRatings

FITCH RATES BEXAR COUNTY, TEXAS' LT AND ULT BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-Austin-09 December 2014: Fitch Ratings assigns the 'AAA' rating to the following Bexar County, Texas (the county) obligations:

--$9.3 million unlimited tax (ULT) refunding bonds, series 2014;
--$55.2 million limited tax (LT) refunding bonds, series 2014;
--$110.1 million flood control tax refunding bonds, series 2014;
--$101.5 million combination tax and revenue certificates of obligation (COs), series 2014.

Fitch also affirms its rating on the county's outstanding bonds:

--$30.6 million unlimited tax (ULT) bonds at 'AAA';
--$1.401 billion limited tax (LT) bonds at 'AAA';

The Rating Outlook is Stable.

In addition, Fitch currently rates the county's venue project revenue bonds (motor vehicle rental tax) and venue project revenue bonds (combined venue tax) 'A+' with a Stable Outlook.

SECURITY

ULT bonds are payable from an unlimited annual property tax levied against all taxable property within the county. The LT bonds and COs are payable from an annual property tax levied against all taxable property within the county, limited to $0.80 per $100 taxable assessed valuation (TAV) for operations and debt service. The COs are also payable from a pledge of revenues from the county's parks.

The flood control tax bonds are payable from an annual property tax levied against all taxable property within the county, limited to $0.15 per $100 TAV. Motor vehicle rental tax bonds are payable from a first lien on the county's 5% motor vehicle rental tax (MVRT). Combined venue tax bonds are payable from a first lien on the county's 1.75% hotel occupancy tax (HOT) and a junior lien on the county's 5% MVRT.

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 multi-year approach to controlling expenditure growth and limiting the scale of structural imbalances.

WEAK DEBT PROFILE, SATISFACTORY PENSION POSITION: The 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. The military remains a major economic factor although the local economy has diversified notably. The county is benefitting from rapid employment gains, enabling the unemployment rate to remain well below state and national averages despite robust labor force increases.

TAX-BASE STABILIZED: The return to sound tax base growth has been aided by the area's affordable home prices, ample developable land, and surging oil and gas activity at the nearby Eagle Ford Shale.

RATING PARITY: The LT bonds are rated on par with the ULT bonds due to the significant rate-raising flexibility under the rate limitation supporting the LT bonds. The county currently levies a combined $0.29 operations and debt service tax rate compared to the limit of $0.80.

LARGE, MATURE HOSPITALITY SECTOR: Pledged revenues for the venue project revenue bonds benefit from the 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; WEAK ABT: Annual debt service coverage (DSC) for the combined venue tax bonds is thin and will be pressured by the county's plan to issue additional bonds by 2016. DSC for the MVRT bonds is projected to remain sound. The additional bonds tests for both venue tax securities are weaker than average.

LARGE ACCUMULATED RESERVES: Fitch 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 rating assumes reserves will remain significant although a portion may be used for capital projects. The bonds also have cash-funded debt service reserves equal to average annual debt service (AADS).

HIGH COMMUNITY SUPPORT: The county voters' support for the venue tax extensions was notable for its high approval margin.

RATING SENSITIVITIES

GROWING DEBT BURDEN: Rising debt beyond current expectations could pressure the rating.

CICF UTILIZATION: A reduction in the CICF to near or below AADS may result in negative rating action for the combined venue tax bonds.

CREDIT PROFILE

Bexar County, with an estimated 2014 population of 1.7 million, is home to San Antonio (general obligation bonds rated 'AAA' with a Stable 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 past realignment and base closure decisions. Other leading employment sectors include domestic and international trade, convention and tourism, medical and health care, financial services, and telecommunications.

EAGLE FORD SHALE IMPACTS EMPLOYMENT BASE

The ongoing recovery from the last 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 unemployment rate declined to 4.8 % in September 2014 from the 6.1% rate posted a year prior and compares favorably to state and national averages of 5% and 5.7%, respectively, for the same period. The inherent volatility of oil and gas prices, as highlighted by the recent drop in energy prices, poses a source of some uncertainty for the local economy.

TAX BASE STABILIZED

The county's tax base has returned to a steady growth mode after declining modestly in fiscal 2012 due to the steep building downturn and falling base values of the last recession. TAV grew by 5.7% and 7.5% in fiscal years 2014 and 2015, respectively, mostly due to reappraisal gains. County officials are conservatively projecting modest rates of TAV growth beyond fiscal 2015. About 70% of general fund revenue is derived from ad valorem taxes.

STRONG FINANCIAL PROFILE

The county's financial position remains strong, boosted by a multi-year strategy to control growth of 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 reserves above its 10% fund balance policy level despite sluggish tax-base trends during the economic slowdown.

The county posted its fourth consecutive net operating surplus in fiscal 2013. The surplus equaled $5.1 million (1.5% of general fund spending) and increased its unrestricted fund balance to $67.3 million or a high 20% of spending. Fiscal 2013 results were aided by the county's practice of budgeting contingency appropriations.

The county estimates fiscal 2014 results will again outperform the budget which included a $14.4 million (4.2% of appropriations) use of fund balance. Preliminary indications point to a net general fund surplus of $4.8 million (1.4% of spending).

The adopted fiscal 2015 budget includes a moderate 5% increase in appropriations over the previous year's budget. The budget again includes both a draw on fund balance ($17.6 million or 4.6% of appropriations) and sizeable contingencies ($20 million or 5.2% of appropriations) which Fitch expects will support balanced results. A 3% cost of living increase and market adjustments for exempt employees is also included in the budget.

HIGH DEBT BUT MODEST PLANS

The county's overall debt burden is high at $5,928 per capita and 8.3% of market value. Direct debt includes a rising level of bonds secured by HOT and MVRT receipts which now comprise 19% of the county's debt portfolio. However, overall debt levels have risen mostly from substantial debt issuances by the county's large number of overlapping jurisdictions, which include 15 school districts. The principal amortization of property tax-supported debt remains well below-average at 23% in 10 years.

Last year's numerous new money offerings, totaling $530 million, and the current offering are not projected to require an increase in the county's modest combined debt service and flood control tax rate of $0.076 per $100 AV. The county's plan of finance is based on TAV growth of 2%-3% annually, which Fitch considers conservative, and includes support for the CO debt service by Texas Department of Transportation reimbursements for outstanding pass-through toll road bonds and revenues derived from the county-wide advanced transportation district sales tax receipts.

The county's future property tax-supported debt plans include $48 million in pass-through toll road and limited tax bonds in 2015 and $35 million of COs for road improvements and $50 million for flood control projects in 2016. Continued large debt issuances beyond these expectations, without offsetting tax base growth, could result in negative rating pressure given the county's high overall debt burden.

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 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). The four extension propositions received high voter approval rates ranging from 57% to 75%.

The commissioners' court later revised the plan and funded all San Antonio River projects with flood control COs payable from the county's flood control property tax. The county retains the legal authority to issue venue project revenue bonds to refund these COs although there are no such plans. The sole remaining venue project is $75 million in improvements to the AT&T Center for which combined venue tax bonds will be issued by 2016. The venue taxes will remain in effect until the final maturity of outstanding and future bonds for the voter-approve bond projects. The use of these venue taxes for additional projects would require voter approval.

LARGE HOSPITALITY SECTOR BENEFITS PLEDGED REVENUE BASE

The sources of pledged revenues are considered narrow by Fitch but are supported by the 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 an aggregate 12.4% in fiscal 2009, before rebounding by a compound annual average of 6.9% through fiscal 2013. Combined HOT and MVRT receipts for fiscal 2014 increased by 4.5% on an unaudited basis. Moderated growth in fiscal 2014 is attributed to sluggish bookings at the city's convention center which is undergoing major renovations.

The county's inventory of hotel rooms totals a large 45,416 rooms across 423 hotels, motels, and bed/breakfasts. In August 2014, the occupancy rate registered at 67% but is higher for downtown hotels. No major hotel projects are underway or currently planned. The county's forecast assumes flat pledged revenue growth which Fitch views favorably.

The combined HOT within the county totals an above average 16.75%, comprised of the 1.75% pledged HOT, a 6% State HOT, and a 9% city HOT. The taxes are collected by the city of San Antonio pursuant to a contract with the county. The combined MVRT totals 15% on short term rentals, comprised of the 5% pledged MVRT and a 10% state MVRT, both of which are collected by the state comptroller.

ADEQUATE COVERAGE OF MVRT BONDS; NO FURTHER LEVERAGING

Maximum annual debt service (MADS) coverage totals 1.5x for the MVRT bonds based on audited fiscal 2013 revenues which Fitch considers adequate for the rating level. Debt service is level after the current year but only 21% of principal matures in 10 years due to the long 40-year maturity of the 2009 bonds. All of the voter-approved amateur sports projects have been funded and no additional leveraging of this revenue stream is authorized.

THINNER COVERAGE OF COMBINED VENUE TAX BONDS; ADDITIONAL DEBT PLANNED

Current MADS coverage of the combined venue tax bonds is thinner at 1.3x and will be pressured by the county's plan to issue its remaining $75 million in combined venue tax bonds by 2016. Fitch considers the county's 1.25x additional bonds test to be below average and is based on AADS. The bonds are structured with level debt service but also mature very slowly (18% in 10 years) due to the long 40-year maturity of the 2009 bonds.

LARGE RESERVES BUFFER THIN COVERAGE

The CICF totaled $75.6 million in fiscal 2014, equal to over five years of AADS for the combined venue tax bond 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 county may consider using a portion of the CICF to supplement its planned combined venue tax bonds. A reduction in the CICF balance to close to or below AADS may result in negative rating action for the combined venue tax bonds.

NO OPERATING IMPACT TO COUNTY

Fitch expects any county responsibility for operations and maintenance (O&M) costs of the numerous venue project bond-financed projects to be manageable. The county currently makes no O&M contributions, as costs are addressed through negotiated memorandums of understanding with third parties.

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 (TCDRS). The county fully funds the annual required contribution (ARC), leading to a solid 82.6% funded position as of Dec. 31, 2013. Adjusted to reflect Fitch's assumption of a 7% rate of return, the funded position is still adequate at an estimated 74.4%. 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 ARC and OPEB payments are moderate at 15.4% of total fiscal 2013 governmental spending.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', Aug. 14, 2012;
--'U.S. Local Government Tax-Supported Rating Criteria', Aug. 14, 2012.

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

MOODY'S INVESTORS SERVICE

New Issue: Moody's affirms Aaa on Bexar County, TX unlimited and limited tax obligations; stable outlook

Global Credit Research - 08 Dec 2014

Assigns Aaa to four new issues

BEXAR (COUNTY OF) TX
Counties
TX

Moody's Rating

ISSUE		RATING
Combination Tax and Revenue Certificates of Obligation, Series 2014		Aaa
Sale Amount	$101,500,000	
Expected Sale Date	12/11/14	
Rating Description	General Obligation Limited Tax	
Flood Control Tax Refunding Bonds, Series 2014		Aaa
Sale Amount	$110,140,000	
Expected Sale Date	12/11/14	
Rating Description	General Obligation Limited Tax	
Unlimited Tax Refunding Bonds, Series 2014		Aaa
Sale Amount	$9,280,000	
Expected Sale Date	12/11/14	
Rating Description	General Obligation	
Limited Tax Refunding Bonds, Series 2014		Aaa
Sale Amount	$55,160,000	
Expected Sale Date	12/11/14	
Rating Description	General Obligation Limited Tax	

Moody's Outlook STA(m)

Opinion

NEW YORK, December 08, 2014 --Moody's Investors Service has assigned a Aaa to four new issues by Bexar County, TX including $101.5 million Combination Tax and Revenue Certificates of Obligation, Series 2014, $9.3 million Unlimited Tax Refunding Bonds, Series 2014, $55.2 million Limited Tax Refunding Bonds, Series 2014, and $110 million Flood Control Tax Refunding Bonds, Series 2014. At the same time, we have affirmed the Aaa on outstanding unlimited and limited tax obligations. The outlook is stable. Following the sale, the county will have a total of $29.8 million in unlimited, and $1.5 billion in limited debt. Proceeds from the new money will be used to fund infrastructure and technology needs. Proceeds from the refunding will be used to refund certain maturities for an expected net present value savings. The certificates and limited tax obligations are secured by a limited tax on all taxable property in the county. The certificates are additionally secured by a subordinate lien on the pledge of certain net revenues of the county's parking facilities. The unlimited tax obligations are secured by an unlimited pledge.

SUMMARY RATING RATIONALE

The Aaa reflects the county's expansive tax base that benefits from a thriving and diverse local economy despite below median socioeconomic indicators. It also incorporates the county's history of conservative budgeting reflected by a history of financial performance outperforming the budget, and debt burdens that are above the median for similarly rated credits.

The stable outlook reflects the county's regional economic strength, as well as its stable financial profile.

STRENGTHS

Sizeable and diverse regional economy that continues to experience growth

History of financial performance positively surpassing budget expectations

Tax rates that remain well under the statutory cap

Annual funding of ARC

CHALLENGES

Below median socioeconomic indicators

Large and growing population drives demand for services

Elevated debt burden

DETAILED CREDIT DISCUSSION

STRONG LOCAL ECONOMY CONTINUES TO DRIVE TAXABLE VALUE GROWTH

Bexar County is home to San Antonio (Aaa negative outlook), which is the regional economic center for the region. With a vibrant metropolitan area, migration patterns into the county have been strong growing 23.1% over the last decade as reported by the 2010 US Census. Since then, estimates show a 6% increase to 1.8 million people in 2013. The local economy is diverse and growing anchored by sectors including military, government, tourism, financial institutions, and the recent oil boom in the south of the state. Labor force within the county has demonstrated strong growth, increasing 18.3% since 2004 to 839,830 as of September 2014 as public and private economic initiatives continue. Despite the growth but consistent with other areas with significant institutional presence, the county's wealth indicators remain below the median with the 2012 median family, and per capita incomes at 89.8%, and 86% respectively of national levels as reported by the 2012 American Community Survey (ACS). The September 2014 county unemployment rate of 4.8% was below the state's 5.0% and the nation's 5.7% taken during the same time period.

The economic variety and development has contributed to an expansive tax base that has grown an annual average of 2.6% over the past five years. In fiscal year 2015, taxable values grew 7.3% over the prior year to approximately $112 billion. Similar values are expected over the near to medium term as the county continues to enjoy residential and commercial development. In July 2014, Moody's Analytics reported that above average population gains, presence of significant energy resources in nearby areas, low cost of doing business, relatively high affordability, and a growing manufacturing presence should lead to above average overall performance in the longer term.

CONSERVATIVE MANAGEMENT DRIVES STRONG OPERATIONS; AMPLE MARGIN UNDER TAX CAP

The county's financial profile is stable which is evident in a demonstrated history of year over year surpluses. Despite a weak budgeting practice that includes appropriation of reserves on an annual basis, conservative revenue estimates and expenditure control has contributed to annual operating success. The county has reported four consecutive operating surpluses including a $5.1 million surplus in fiscal year 2013 which increased the total General Fund balance to $72.5 million (a moderate 21.3% of General Fund revenues); $67.3 million or 19.8% was unassigned. The cash balance at fiscal year-end was also strong at $82 million. The fiscal year 2014 budget was balanced with the use of $11.7 million in reserves reflecting increases for health care, and compensation adjustment for employees. However, unaudited results reflect much strong performance with the General Fund expected to increase by about $5 million to $77.2 million (21.6% of revenues). In fiscal year 2015, the General Fund was balanced with the use of $17 million from reserves including compensation adjustments, and increased positions largely related to public safety. However, officials maintain that the budget includes $20 million in contingencies including $4 million which is not expected to be expended. Year to date, officials report that budget is currently on track, but the county expects to end the fiscal year with revenues outpacing expenditures. The county's growing population presents some operating challenges with increased demand for services. Given the county's history, we expect that the financial profile will remain stable as the conservative management continues.

The county maintains ample margin under its statutory cap provided additional flexibility to raise revenues. In fiscal year 2014, the county levied a total tax rate of $3.27 per $1,000 of assessed values. Within that total tax rate, the county levied a total limited tax rate of $2.96 ($2.51 for maintenance and operations, and $0.45 for the limited debt service tax) which is well under the $8 limited tax statutory cap. Additionally, per state law, the county can levy up to $3 for flood control and farm to market purposes within no more than $1.50 allocated to each purpose. During the fiscal year, the county levied $0.31 for flood control purposes; there is no farm to market special tax. The total tax rate decreased in fiscal year 2015 to $3.15 per $1,000 of assessed values, with the decline both in the General Fund and limited debt service tax rates.

DEBT PROFILE REMAINS HIGHER THAN PEERS

The county's debt burdens are higher than similarly rated credits, resulting in high fixed costs. In fiscal year 2013, fixed costs including pension, debt and other post employment benefits (OPEB), accounted for 27.8% of total expenditures. Including the new sale, the county's direct debt burden of 1.4% (8.3% overall) on a fiscal year 2015 valuation is more than double the national median. Payout is slow with 21.4% of principal retired in 10 years. Following this sale, the county has $37.3 million in authorized unissued limited tax debt. However, the county reports limited capital needs at the current time, and don't expect another issuance for another couple of years. Given a slow payout, we expect the county's debt profile will remain elevated over the near term.

Budgetary pressure due to the county's participation in Texas County District Retirement System (TCDRS) is expected to remain minimal. The county has consistently made 100% of its annual required contribution (ARC). In fiscal year 2013, as reported, the county's unfunded actuarial accrued liability (UAAL) was $147.7 million. Moody's adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is $655.1 million in fiscal year 2013. The three year average ANPL is a manageable 1.26 times of operating revenues, including the General and Debt Service funds. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported contribution information, or the reported liability information of the statewide cost-sharing plans, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, governments, and other entities across the globe please visit Moody's on Pensions at www.moodys.com/pensions.

OUTLOOK

The stable outlook reflects the county's regional economic strength, as well as its stable financial profile.

WHAT COULD MAKE THE RATING GO UP - N/A

WHAT COULD MAKE THE RATING GO DOWN

Structural imbalance eroding reserves

Collapse in local economy

KEY STATISTICS

FY 2015 Full Value: $112 billion

FY 2015 Full Value Per Capita: $61,609

2012 ACS Median Family Income as a % of the US: 89.8%

FY 2013 Available Operating Fund Balance as a % of Operating Revenues: 32.12%

5 Year Dollar Change in Fund Balance as a % of Operating Revenues: 8.72%

FY 2013 Available Operating Cash Balance as a % of Operating Revenues: 36.15%

5 year Dollar Change in Cash Balance as a % of Operating Revenues: 11.18%

Institutional Framework: Aaa

Operating History: 5 Year Average of Operating Revenues/Operating Expenditures: 1.02x

Net Direct Debt/Full Value: 1.36%

Net Direct debt/Operating Revenues: 3.64x

3 year Average of Moody's Adjusted Net Pension Liability/Full Value: 0.47%

3 year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 1.26x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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