STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Bee County, Texas; General Obligation

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Summary:

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Credit Profile		
Bee Cnty GO		
Long Term Rating	AA-/Stable	Upgraded
Bee Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Bee Cnty GO		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term and underlying rating (SPUR) to 'AA-' from 'A' on Bee County, Texas' general obligation (GO) bonds' based on our recently released local GO criteria. The outlook is stable.

The bonds are secured by an ad valorem tax rate limited to a 80 cents per $100 of assessed value (AV) by state law. In our view, the county has ample taxing flexibility below the cap with the current rate at 42.85 cents per $100 of AV.

The rating reflects our assessment of the county's:

- Weak economy, with a projected per capita effective buying income at 50% of the national average and per capita market value of $38,139, which we feel is somewhat depressed due to the large prison population. Bee County, with a population of 34,229, is in south-central Texas, where it covers about 880 square miles and is about 50 miles northwest of Corpus Christi and 90 miles southeast of San Antonio. Beeville is the county's seat and principal commercial center, and accounts for roughly 40% of the county's population. The county's economic base has historically been somewhat limited, with employment opportunities in agriculture, oil and gas production, and two state correctional facilities. The county's taxable value declined 5.9% in fiscal 2010 and 2% in fiscal 2012, which is partly due to softening effects of the recession and fluctuations in oil and gas values. However, the county's AV rebounded, with 7% growth to $1.09 million in fiscal 2013 and management anticipates further growth to $1.3 million for 2014.
- Very strong budgetary flexibility, with reserves above 30% and we expect they will remain above 30% through 2014. Audited available reserves equal to $3.08 million or 41.7% of expenditures in 2012, which is compliant with the county's general fund reserve policy. For fiscal 2013, the county projects reserves will increase to approximately $4.9 million or 68% of expenditures, due to a spike in sales tax revenues. For fiscal 2014, the county adopted a balanced general fund budget and expects to maintain the same level of reserves as 2013. The county has historically proven a willingness to increase and decrease the tax rate as needed from year to year. The major increases were 6 cents in the operations tax rate in fiscal 2011 and 4 cents in fiscal 2012. The 2014 total tax rate is 46.01 cents, down from 49.8 cents due to a decline in the operations and maintenance (O&M) rate from 36.8 cents in 2013 to the current rate of 34.6 cents.
- Strong overall budgetary performance, with a surplus of 16.2% for the general fund in fiscal 2012 and the

governmental funds net performance reflects a surplus of 9%. Unaudited fiscal 2013 data indicates a surplus of 28% for the general fund and 33.3% net surplus for total governmental funds. For fiscal 2014, the total governmental funds budget indicates a surplus of 4.7%. Management attributes the surpluses in 2012 and 2013 to a combination of an increase in the operations tax rate and rebound in the taxable AV trends. Due to the oil and gas component, management has indicated that primary revenues will begin to plateau based on a five-year cycle of oil and gas activity. Property taxes represent 71% of total general fund and governmental fund revenues and have not fluctuated significantly.

- Very strong liquidity, with total governmental available cash as a percent of total governmental expenditures of 19% and as a percent of debt service of 378%. In addition, we view the county's assess to external liquidity as strong, with a history of issuing GO or certificates of obligation bonds five times during the past 15 years.
- Adequate financial management practices, as indicated by a financial management assessment (FMA) score of "standard." In addition, the county has not experienced any recent political instability, turnover, or gridlock, is not actively considering bankruptcy, and has not demonstrated unwillingness to support its obligations.
- Very strong debt and contingent liabilities profile, with total governmental fund debt service as a percent of total governmental fund expenditures at 5.1%, and with net direct debt as a percentage of total governmental fund revenue at 52%. The county's debt amortizes rapidly, with more than 87% of principal due to be retired in 10 years, and the overall net debt burden is just 3.1% of market value. The city does not expect to issue additional debt within the next two years.
- The county participates in the Texas County & District Retirement System, a nontraditional defined-benefit pension plan. Contribution rates are actuarially determined annually. The county has met its required contribution amounts for the past three years and the funded status is 95% as of December 2011. The county offers health care benefits to retirees through COBRA (the Consolidated Omnibus Budget Reconciliation Act), with the retiree responsible for insurance premiums. The total pension contribution is just 3.7% of the governmental funds budget.
- We consider the Institutional Framework score for Texas counties as strong. See Institutional Framework score for Texas.

Outlook

The stable outlook reflects our view that the county will maintain its very strong budgetary flexibility and liquidity position. While we do not expect the rating to change within the two-year outlook horizon, a decrease in budgetary performance, liquidity, or debt and contingent liabilities profile could put downward pressure on the rating. Improvement in the county's economic diversity and depth or stronger financial management policies could lead to a raised rating.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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