MOODY'S
INVESTORS SERVICE

New Issue: Moody's affirms Tarrant County's Aaa underlying rating, TX; outlook is stable

Global Credit Research - 31 Jul 2015

Assigns Aaa to $66.4M Limited Tax Bonds Series 2015

TARRANT (COUNTY OF) TX
Counties
TX

Moody's Rating

ISSUE	RATING
Limited Tax Refunding and Improvement Bonds, Series 2015	Aaa

Sale Amount	$66,465,000
Expected Sale Date	08/10/15
Rating Description	General Obligation Limited Tax

Moody's Outlook STA

NEW YORK, July 31, 2015 --Moody's Investors Service has assigned a Aaa rating to Tarrant County's, TX $66.4 million Limited Tax Refunding and Improvement Bonds, Series 2015. Concurrently, we have affirmed the Aaa rating on the county's $230 million of parity limited tax debt outstanding. The outlook is stable.

SUMMARY RATING RATIONALE

The Aaa rating reflects the county's large and diverse tax base that is home to large cities in the Dallas/Fort Worth Metroplex, socioeconomic indices that are on par with nation and stable financial performance and reserve position that is bolstered by growing property tax revenues. The rating also incorporates the county's below average debt profile and manageable pension burden.

OUTLOOK

The stable outlook reflects our expectation the local economy will remain strong in the near term given a positive business climate, ongoing commercial and residential development and major expansion projects. The stable outlook also reflects our expectation that financial performance will remain stable and available reserves will be maintained in excess of the county's formal reserve policy.

WHAT COULD MAKE THE RATING GO UP

-NA

WHAT COULD MAKE THE RATING GO DOWN

-Trend of weak financial performance leading to narrowing of reserves or liquidity below the county's formal reserve policy

-Increase in the debt profile

-Significant contraction of the tax base

STRENGTHS

-Large and strong local economy that continues to grow

-Stable financial performance

-Growth of property tax revenues

-Manageable debt profile

CHALLENGES

-Below average liquidity

RECENT DEVELOPMENTS

Recent developments are incorporated in the detailed rating rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE TAX BASE LOCATED IN NORTH CENTRAL TEXAS

Affordable housing, an attractive business climate, and continued investment of existing institutions all positively impact Tarrant County's economy and tax base, which is expected to grow in the near-term. The county covers approximately 900 square miles and is home to the City of Fort Worth (the county seat, GOLT rated Aa1/stable outlook) and the City of Arlington (GOLT rated Aa1/stable outlook). Twenty-seven other incorporated cities are located wholly within the county. The county's current population estimate is a sizeable 1.9 million. One of the strengths of the local economy lies in the business climate and vitality of existing employers and tax payers in the county. General Motors Company (Ba1/stable outlook) is underway with a roughly $1.4 billion expansion project at its Arlington location. Motorola Solutions Inc. (Baa2/stable), General Electric Corporation (A1/stable) Transportation, and others are also underway with expansion projects of their own. The county is also home to several large universities including Texas Christian University (Aa3/stable), Texas Wesleyan University, and the University of Texas at Arlington, amongst others. There are also over 25 hospitals, inclusive of one children's hospital, and four government hospitals as the county remains a regional hub for health care services. Shorter term and longer term prospects for the local economy remain strong. Moody's Economy reported in March 2015 that Fort Worth will continue to expand over the coming year, supported by transportation, manufacturing and housing. Longer term, above-average population growth, a diversified manufacturing base, and lower business costs and costs of living relative to Dallas will help support above-average gains. Socioeconomic indices for the county are average. The county's per capita income and median family income are 100.3% and 104.2% of national levels, respectively. The March 2015 unemployment rate for the county was favorable at 4.1%, which was below that of the state (4.2%) and the nation (5.6%) for the same time frame.

The taxable value for the county for fiscal 2015 is a sizeable $136.1 billion. With ongoing development throughout the county, preliminary numbers indicate a taxable value of $141.2 billion for fiscal 2016, which is a 3.7% increase over the previous year and will mark the fifth consecutive year of positive annual taxable value growth. The top ten taxpayers comprise a modest 3.5% of the total tax base.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL PERFORMANCE STABLE; RESERVE POSITION EXPECTED TO BE MAINTAINED

The county's financial performance has remained stable over the last several years and has benefitted from operating surpluses. For fiscal 2014 the General Fund ended the fiscal year with a modest $815,000 surplus with revenues of $388.4 million and expenditures of $387.6 million (including $28.6 million in transfers out of the Fund to the Capital Projects Fund). The year-end (September 30) total General Fund balance was an adequate $78.9 million or 20.3% of General Fund revenues. The county maintains a reserve policy to maintain a budgeted reserve of at least 10% of the combined operating expense budget of the General and Road and Bridge Funds in the General Fund. At fiscal year-end 2014 the Road and Bridge Fund balance was $16.3 million, the majority of which was committed for future projects. For fiscal 2014, the General Fund revenues were primarily derived from taxes, licenses, and permits (77.1% of total General Fund revenues) and fees of office (13.4%). The county's maintenance and operations (M&O) tax levy is $2.39 per $1,000 of assessed valuation which is well below the $4 allowed by law. While the county has shifted the tax rate between M&O and interest and sinking (I&S) levies, the total tax rate of $2.64 has remained stable over the last several years and we do not anticipate any change in the total tax rate in the near-term.

Officials report stable financial performance through 10 months of fiscal 2015. Despite modest growth in both revenues and expenditures, management anticipates a modest General Fund operating surplus at year's end.

Liquidity

At fiscal year-end 2014 cash in the General Fund totaled $82.7 million (or 21.3% of General Fund revenues), which has continued to increase in recent years. The Road and Bridge Fund cash totaled $16.1 million. We anticipate stable cash reserves will be maintained in the near term.

DEBT AND PENSIONS: MANAGEABLE DEBT AND PENSION BURDEN

Debt structure

We expect the county's debt profile to remain manageable over the near to medium term. Post-sale the county will have roughly $376.8 million of limited tax parity debt outstanding. The county's direct debt burden is below median and manageable at 0.3%, which is calculated from fiscal 2015 total taxable value. Included in the county's debt profile is an $80.3 million issuance of privately placed bonds. The bonds will be paid from ad valorem taxes and do not have superiority to rated limited tax bonds. Payout of principal is average with about 75% of principal debt retired over the next ten years. The county's overall debt burden is high at 6.2% and driven by significant borrowing from local school districts and cities in the county.

Debt-Related Derivatives

The county has no variable rate debt nor swaps outstanding.

Pensions and OPEB

The county's pension and OPEB obligations are below average. The county provides retirement, disability and death benefits for all its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The three year average of Moody's adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is $660.7 million. This liability is equal to 1.49 times annual operating revenues. 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, government, and other entities across the globe, please visit Moody's on Pensions at www.moodys.com/pensions.

For 2014 the county's annual OPEB cost was $15.8 million which solely includes the postemployment healthcare plan. The county contributed $5.16 million or 32.6% of the annual OPEB cost for the year. At fiscal year-end the unfunded actuarial accrued liability (UAAL) as a percentage of covered payroll was 78.4%

MANAGEMENT AND GOVERNANCE

Texas counties have an institutional framework score of "Aaa", or very strong. Counties rely on property taxes to fund operations, and have the ability to increase revenues as all counties remain well below the state cap. Additionally, the size of the tax base, with minimal declines noted during the last recession, and recovery since then, also strengthens the stable revenue source. Expenditures, which are primarily for roads and jails, tend to be generally predictable and counties have the ability to reduce expenditures as necessary, given the lack of union presence within the state.

The County was organized in 1849. The County operates as specified under the Constitution of the State of Texas (the "State") and statutes which provide for a Commissioners Court consisting of the County Judge and four

Commissioners, one for each of four geographical Commissioners Precincts. The County Judge is elected for a term of four years and the Commissioners for staggered four-year terms. Other major County elective officers include the County Clerk and County Tax Assessor/Collector. The County Auditor is appointed for a term of two years by, and serves at the will of, the District Judges whose courts are located in the County.

KEY STATISTICS

-Full valuation: $136.1 billion

-Full value per capita: $70,494

-Median Family Income: 104.2% of US

-Operating Fund balance as a % of operating revenues: 17.49%

-5 year dollar change in operating Fund balance as a % of operating revenues: 8.32%

-Cash balance as a % of operating revenues: 18.91%

-5 year dollar change in cash balance as a % of Revenues: 9.16%

-Institutional Framework: Aaa

-Operating history: 5 year average of operating revenues/operating expenditures: 1.02x

-Net direct debt/full value: 0.28%

-Net direct debt/operating revenues: 0.85x

-3 year average of Moody's adjusted pension liability/full value: 0.51%

-3 year average of Moody's adjusted net pension liability/operating revenues: 1.49 x

OBLIGOR PROFILE

The county is a political subdivision of the state, located in North Central Texas. The county covers approximately 900 square miles and is home to the City of Fort Worth (The County Seat) and the City of Arlington.

LEGAL SECURITY

The bonds are payable from the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the county.

USE OF PROCEEDS

Proceeds from the bonds will be used to maintain roads and bridges, as well as to construct and renovate the Juvenile Justice Complex. Proceeds from the bonds will also be used to refund certain portions of the county's outstanding debt for a projected 8.5% net present value savings with no extension of the final maturity.

RATING METHODOLOGY

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.

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