



Fitch Affirms Bexar County Hospital District, Texas' COs at 'AAA'; Outlook Stable

Ratings

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Fitch Ratings-Austin-06 January 2012: Fitch Ratings takes the following rating action on Bexar County Hospital District, Texas dba University Health System (district) as part of its review of tax supported debt of public enterprises:

--\$745 million aggregate certificates of obligation (Cos), series 2008, 2009A, 2009B, 2010A, and 2010B affirmed at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by a limited property tax levy and a pledge of surplus revenues of the district's hospital system. The district's property tax rate is limited to a maximum rate of \$0.75 per \$100 of taxable assessed value (TAV) for all purposes.

KEY RATING DRIVERS

SOUND FINANCIAL PROFILE: The district's financial profile is characterized by solid operating margins that have enabled the accumulation of cash that will fund a portion of its large capital plan.

PAYOR MIX VULNERABILITY: The hospital's patient mix is heavily weighted toward the low-income segment of its service area population, making it susceptible to cuts in federal funding for supplemental Medicaid payments. However, management has made prompt budget adjustments to past major changes in these revenue streams.

SOLID TAX BASE: The tax base, which is coterminous with Bexar County, is very large and diverse.

BROAD TAXING MARGIN: The district is authorized to levy up to \$0.75 per \$100 of TAV for all purposes. Currently, the district levies just under \$0.28 per \$100 of TAV of which only 4 cents are designated for debt service. Despite conservative projections of declining TAV, officials anticipate only a modest debt service tax rate increase for the district's large capital plan.

HIGH OVERALL DEBT BURDEN: The debt profile of the district is mixed, characterized by a sizeable albeit manageable capital plan and very low direct debt levels due to a lack of historical debt issuance, balanced against a slow principal payout rate and a high overall debt burden.

STABLE ECONOMY: Although the local economy has diversified notably, the military remains a major economic factor. The contraction of the local economy has moderated somewhat, enabling the county's unemployment rate to remain well below state and national averages.

ESSENTIAL SERVICE: The district fulfills an essential role in providing safety-net health care services to Bexar County's large and growing Medicaid and indigent care population. The district's primary operating platform, University Hospital, serves as south Texas' leading trauma facility.

CREDIT PROFILE

SOUND FINANCIAL PROFILE

Fitch considers the district's operating history to be sound. With the aid of property tax revenues, the district has reported positive operating margins in all but one of the past eight years. The district's current property tax rate is \$0.276 per \$100

of TAV, well below the statutory ceiling. Liquidity is good (206 days cash on hand for fiscal 2010); however, the use of \$120 million in available funds for the current capital plan will reduce cash levels to about 140 days in the near term. Fitch expects liquidity to remain satisfactory going forward. The district has some financial exposure given the large number of Medicaid and indigent patients, a function of its status as a public healthcare provider. This reliance creates vulnerability to changes in reimbursement rates for federal and state programs.

CAPITAL PLAN

The need for additional bed and clinic capacity and a decision to renovate some older facilities led district officials in 2008 to develop an \$899 million capital plan. Funding for the capital plan, which primarily consists of construction of a new trauma tower at University Hospital, as well as other smaller projects, was derived from approximately \$778 million in tax-supported debt and \$120 million in available cash and other sources. The new trauma tower is under construction and expected to be completed by February 2014. Given the size of the tax base - \$102.5 billion for 2011 - the tax rate impact for the debt issuance will be modest at roughly \$0.04 per \$100 of TAV. After a sustained period of solid growth, the district's tax base grew only negligibly in fiscal 2010 and declined modestly for fiscal 2011 and 2012. The county's tax assessor projects to resume modest growth by 2013.

Prior to embarking on the present capital plan, the district had no outstanding debt. Notably, the district cash funded approximately \$140 million in capital improvements from fiscal 2004-2008. Moreover, the district established a cash reserve policy in fiscal 2000 and built up an estimated \$120 million to contribute to its present capital plan. Principal amortization is slow at about 18% in 10 years. Fitch views the district's direct debt burden as modest but overall debt ratios, driven primarily by area school district debt, are high at \$4,762 per capita and 7.3% of market value.

SERVICE AREA

The district's primary service area is Bexar County (general obligation debt rated 'AAA' by Fitch). Its secondary service area comprises the surrounding seven counties, and the district's University Hospital serves as the lead level-one trauma center for 22 counties in south and central Texas, reaching a population of roughly 2 million. The county's 2010 population is more than 1.7 million, up roughly 23% from the 2000 census and a reflection of the continued growth of the San Antonio metropolitan area.

Proximity to Mexico has made San Antonio a business and distribution center for international trade; other major economic sectors are biomedical research, health services, tourism, military/government and financial services. Local unemployment rates have been at or below the state and national averages for the past several years, and the most recent monthly totals continue that trend.

DISTRICT AND FACILITIES

The district is coterminous with Bexar County. Created in 1955, it is governed by a seven-member board selected by the Bexar County commissioners to serve two-year staggered terms.

The district's facilities include University Hospital (a 498-bed acute care facility), six outpatient primary/specialty care clinics, three dialysis centers and nine preventive health clinics. Since 1968, the district has been affiliated with the University of Texas Health Science Center (UT), whereby the district's facilities serve as the major teaching sites for many of the UT health care programs, including the graduate medical education program.

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In addition to the sources of information identified in Fitch's 'Tax Supported Rating Criteria', this action was informed by information from Credit Scope and Texas Municipal Advisory Council.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria', dated Aug. 15, 2011;

--'U.S. Local Government Tax-Supported Rating Criteria', dated Aug. 15, 2011.

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