New Issue: MOODY'S UPGRADES MONTGOMERY COUNTY'S (TX) GENERAL OBLIGATION RATING TO Aa1 FROM Aa2; Aa1 RATING ASSIGNED TO COUNTY'S 2012 DEBT ISSUANCES

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RATING AFFECTS $468 MILLION IN PARITY DEBT; INCLUSIVE OF CURRENT OFFERINGS

MONTGOMERY (COUNTY OF) TX
Counties
TX

Moody's Rating

ISSUE		RATING
Certificates of Obligation, Series 2012		Aa1
Sale Amount	$14,100,000	
Expected Sale Date	02/29/12	
Rating Description	General Obligation	
Limited Tax Refunding Bonds, Series 2012		Aa1
Sale Amount	$31,745,000	
Expected Sale Date	02/29/12	
Rating Description	General Obligation Limited Tax	

Moody's Outlook NOO

Opinion

NEW YORK, February 24, 2012 --Moody's Investors Service has upgraded Montgomery County's (TX) general obligation rating to Aa1 from Aa2. We have also assigned a Aa1 rating to the county's $14.1 million Certificates of Obligation, Series 2012 and $31.7 million Limited Tax Refunding Bonds, Series 2012. The Aa1 rating has been applied to the county's $325 million in outstanding general obligation limited tax debt and $131 million general obligation unlimited tax debt. Proceeds from the refunding bonds will be used to refund a portion of the county's outstanding debt for a net present value savings and without stretching the maturity. The certificates will fund various capital improvements throughout the county.

SUMMARY RATING RATIONALE

The bonds are payable from a continuing direct annual ad valorem tax levied on all taxable property within the county, within the legal limits prescribed by law. The upgrade to Aa1 reflects a large and stable tax base that has demonstrated resiliency through the economic downturn; an above average socio demographic profile; sound financial management practices that have resulted in a trend of surplus operations and a healthy financial reserve; and ample taxing margins . The rating also reflects an elevated debt burden that is reflective of the county's rapid population growth and infrastructure demands.

STRENGTHS:

-Large tax base that has demonstrated stability through downturn

-Strong fiscal management demonstrated by trend of stable finances and healthy reserves

CHALLENGES

-High debt burden due to population growth and demand for infrastructure

DETAILED CREDIT DISCUSSION

SIZEABLE TAX BASE REMAINS STABLE

Montgomery County borders the northernmost portion of Harris County (Aaa negative outlook), within the Houston Metropolitan Area. The county is favorably located along I-45 and much of the county's growth has occurred along this corridor. The county seat is the City of Conroe (Aa2). The tax base is a sizeable $35 billion and is comprised primarily of residential properties which represent 64% of the fiscal 2012 tax roll. The county's population increased by 55% between the 2000 and 2010 Census to an estimated 455,746. Population growth spurred development and the tax base increased at a rapid pace prior to the economic downturn. Prior to 2010, annual tax base growth exceeded 10% and then slowed to 7.8% in fiscal 2010 and 3.4% in 2011 and 4% in 2012. Although growth slowed, it is notable that growth continued despite national economic conditions. Overall, the five year average annual growth rate of 8.5% indicates the relative stability of the local economy. The base is not concentrated with the top ten taxpayers comprising 3.5% of fiscal 2012 values. Although fiscal 2013 taxable values are not yet available, officials do not expect a loss in taxable values as the housing market remains relatively stable and some new construction is occurring.

The county also encompasses The Woodlands, a 28,000-acre high-end mixed use development which includes residential, commercial, recreational and Class A office facilities. growth has spurred development The Woodlands serves as an employment base with several oil and gas headquarters such as Anadarko (Ba1 possible upgrade) located within the development. Anadarko is a top employer and is adding an additional tower within the Woodlands. Other top employers throughout the county include school districts, healthcare, professional services and local governments. The unemployment rate has historically remained below the state and nation. As of December 2011, the unemployment rate of 6.4% trails the state (7.2%) and nation (8.3%). The county's lowest unemployment rate in the last ten years was 3.9% in 2007. Citizen wealth, as represented by per capita income (PCI), is 113.7% of the U.S. and Median Family Income (MFI) is 117.9% of the U.S. Full value per capita is $77,060 and is slightly higher than the national median of $75,780. The size and stability of the local tax base as well as the above average socio demographic profile and favorable unemployment levels contributed to the rating upgrade. Although we do not anticipate a return to the high ad valorem growth patterns experienced in the previous decade, we do expect the local economy to remain relatively stable and for the tax base to moderately increase.

HISTORY OF STRONG FINANCIAL MANAGEMENT AND SURPLUS OPERATIONS

Since fiscal 2004, the county has had consecutive years of operating surpluses totaling $44 million. Fiscal 2010 ended with a surplus of $8.9 million, resulting in a 24% total fund balance. The county designated $12.8 million of fund balance for OPEB obligations resulting in an undesignated fund balance of 16.6%. The county's adopted General Fund reserve policy calls for an unrestricted/unreserved fund balance equal to 20-25% of annual operating expenses. Officials will continue to budget for $2 million surpluses until the policy requirement is achieved. The OPEB designation is also expected to increase by approximately $6 million per year as the county intends to continue to reduce the unfunded liability of $80 million (as of 10/1/2008). The $12.8 million represents 14% of the liability. The fiscal 2011 audit has yet to be finalized, but officials anticipate a surplus of approximately $5 million as a result of conservative budgeting practices. Fiscal 2012 is underway and revenues are performing as expected and officials anticipate another surplus at FYE 2012.

County revenues are dominated by property tax collections which account for 65% of fiscal 2010 general fund revenues. The county does not assess a sales tax levy. In 2007, the county financed the construction of a new jail facility and revenues from various inmate housing contracts comprise 11.5% of the revenue stream. A change in these contracts could impact county finances; however, the county's taxing margin is well below the statutory limit and allows for revenue flexibility. The fiscal 2012 total tax rate of $4.84 per $1,000 of assessed valuation is well below the State's statutory limit of $8.00/$1,000 (excluding the unlimited interest and sinking fund tax levy) but near the County Commissioners Court's self-imposed limit of $5.00/$1,000. A tax increase for operations or to support debt could place negative pressure on the limited tax rating if the margin between the limit significantly narrows. The county's solid history of surplus operations and adequate fund balances also contributed to the rating upgrade. We believe the county is committed to improving reserves and maintaining balanced operations.

ELEVATED BUT MANAGEABLE DEBT BURDEN

Indicative of areas experiencing rapid growth, the county has an elevated direct debt burden of 1.5% of the fiscal 2012 assessed valuation. Furthermore, the overlapping taxing jurisdictions within the county have experienced rapid growth making the overall debt burden a significant 8.6%. County debt burdens also include a $40.6 million Montgomery County Jail Financing Corporation lease revenue obligations that is payable, subject to appropriation, by the county. The transaction is not rated by Moody's. The county sought authorization from voters in November 2011 for $200 million in road bonds. The proposition was narrowly defeated. County officials are working to revamp the proposition and plan to re-approach voters in the near term., The debt profile is fixed rated and the county does not have derivative agreements in place. Principal retirement is below-average with 46.1% amortized in the subsequent ten years. Although the debt burden is elevated above the median, we expect the county will continue to prudently manage debt issuance.

WHAT COULD CHANGE THE RATING - UP:

-Continued trend of taxable value growth

-Strengthened financial reserves

WHAT COULD CHANGE THE RATING - DOWN:

-Operational deficits and weakened financial reserves

-Weakened local economy that results in a declining ad valorem trend

-Further debt issuance without the offset of additional tax base growth

KEY STATISTICS:

2010 Census Population: 455,746 (U.S. Census Bureau)

FY 2012 Full Value: $35 billion

FY 2012 Full Value per Capita: $77,060

Direct Debt Burden: 1.5%

Overall Debt Burden: 8.6%

Amortization of Principal (10 years): 46.1%

Fiscal 2010 General Fund Balance: $43.9 million or 24% of general fund revenues

Fiscal 2010 General Fund Unreserved , Undesignated Fund Balance: $30 million or 16.6%

Post-Sale General Obligation Debt Outstanding: $468 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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