

MOODY'S

INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa1 UNDERLYING RATING TO FORT BEND COUNTY'S (TX) \$65.0 MILLION UNLIMITED TAX ROAD BONDS, SERIES 2012

Global Credit Research - 23 Mar 2012

CONCURRENTLY MOODY'S AFFIRMS Aa1 RATING OF \$111.8 MILLION IN UNLIMITED TAX ROAD BOND, \$134.5 MILLION IN UNLIMITED TAX TOLL ROAD BONDS, AND \$196.7 MILLION IN LIMITED TAX BONDS OUTSTANDING

FORT BEND (COUNTY OF) TX
Counties
TX

Moody's Rating

ISSUE	RATING
Unlimited Tax Road Bonds, Series 2012	Aa1
Sale Amount \$65,000,000	
Expected Sale Date 03/30/12	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, March 23, 2012 --Moody's Investors Service has assigned a Aa1 underlying rating to Fort Bend County's (TX) \$65.0 million Unlimited Tax Road Bonds, Series 2012. Concurrently Moody's affirms the Aa1 rating of approximately \$111.8 million in outstanding Unlimited Tax Road Bonds outstanding. Moody's also affirms the Aa1 rating of \$134.5 million in Unlimited Tax Toll Road Bonds and \$196.7 million in Limited Tax Bonds outstanding. Proceeds from the sale of Unlimited Tax Road Bonds Series 2012 will fund various road construction projects around the county.

SUMMARY RATINGS RATIONALE

The Series 2012 Bonds are payable from the levy and collection of a direct and continuing ad valorem tax, without legal limit as to rate or amount, on all taxable property located within the county. The rating reflects a return to positive growth in the county's sizeable tax base, stable financial operations and reserve levels, and elevated debt profile with plans for future issuance. The lack of rating distinction between the unlimited tax and the limited tax pledge reflects the ample taxing margin that exists between the county's current maintenance and operations tax rate and the county's legal taxing authority.

STRENGTHS

- * Historically stable financial operations
- * Maintained healthy reserve levels

CHALLENGES

- * Elevated debt profile with plans for future borrowing

DETAILED CREDIT DISCUSSION

RETURN TO POSITIVE GROWTH IN SIZEABLE TAX BASE

We believe the county's sizeable and diverse tax base will remain stable in the near term given its favorable location and proximity to the Houston (G.O. rated Aa2 / stable) metro area and continued development occurring within the county. Fort Bend County is a relatively large county located on the southwest side of the Houston metro area. The cities of Sugar Land (G.O. rated Aa1) and Rosenberg (G.O. rated Aa3) are located within the county and are roughly 30 and 40 miles southwest of downtown Houston along the I-59 corridor, which bisects Fort Bend County. Following a modest decline in taxable value in fiscal

2011, the county's fiscal 2012 taxable value returned to positive year-over-year growth. The county's fiscal 2012 taxable value is a sizeable \$39.8 billion which represents a 2.1% increase over fiscal 2011. Despite the decline in taxable value in fiscal 2011, the average annual growth over the past five years remains strong at 6.6% for the period of 2007-2012. The county's population estimate is 606,786 for 2012 and the county's socioeconomic profile as measured by per capita income and median family income is above the state and national medians. Historically current year property tax collections exceed 98% with total collections exceeding 100%. County officials report that in 2011 construction of new single family homes was relatively flat when compared to 2010 and down from the height of construction in 2006 and 2007. Yet officials also report in 2012 strong year to date performance of existing home sales as well as new construction. Generally the county's existing businesses and significant employers have maintained operations or continue to grow modestly. Significant employers and taxpayers in the county include NRG Energy (Senior unsecured rated B1 / stable), Schlumberger (A1 / stable), Frito-Lay Inc., Centerpoint Energy (Baa3 / stable), Richmond State School, and various hospitals. The county is also home to many master-planned residential communities within close proximity to downtown Houston and the regional headquarters for Minute Maid which moved to Sugar Land in 2009. The county's tax base is comprised mainly of single-family residential property (65%) and commercial and industrial property (14%). The county's top ten taxpayers comprise a modest 5.8% of the county's fiscal 2012 total assessed value. County officials believe growth will continue in the county and are conservatively projecting 2% growth in taxable value annually moving forward.

HISTORICALLY STABLE FINANCIAL OPERATIONS AND RESERVE POSITION

Moody's believes the county's financial operations will remain stable in the near term given historically strong General Fund financial operations and maintained healthy reserve levels. The county's total General Fund balance at fiscal year-end 2010 (September 30) was \$43.3 million (or a healthy 21% of General Fund revenues). The county has historically demonstrated sound financial management practices which is evident in strong budget to actual performance as well as the maintenance of reserve levels above the county's formal fund balance policy of maintaining 15% of operating expenditures in reserves. County General Fund operations are primarily funded from property taxes with 71% derived from this source in fiscal 2010 which provides a stable revenue stream. The county currently levies a total tax rate of \$4.99 per \$1,000 of taxable value which includes general fund, road and bridge, debt service, and drainage levies. The county is permitted by law to levy taxes for general fund, jury fund, road and bridge fund and permanent improvement fund purposes up to \$8.00 per \$1,000 of taxable value, including debt service on obligations issued against such funds. The Attorney General of Texas will not approve limited tax debt in an amount which produces debt service requirements exceeding that which can be paid from \$4.00 of the foregoing \$8.00 maximum tax rate. The county currently levies \$0.68 per \$1,000 for debt service.

County officials report solid fiscal 2011 financial performance and an unaudited General Fund balance of \$44.0 million or 20.9% of General Fund revenues. The county's audit will be formalized in the coming weeks. Of the county's total General Fund balance, roughly \$33.1 million is designated as committed for future capital outlay. Management conservatively considers 50% of the committed balance for capital projects and unavailable to General Fund when calculating the formal 15% reserve policy. The county does not anticipate any significant narrowing of this amount in the near term. County officials also report stable year to date financial performance in fiscal 2012. Management reports no significant expenditures above and beyond the current budget and anticipate maintaining the General Fund reserve position in excess of \$40 million. The county did initiate two separate lines of credit to begin road projects in 2012. The current draws on the lines of credit are \$12 million and \$8 million respectfully and the county intends to repay the amounts with near term debt issuance for road projects. We believe maintenance of stable financial operations and healthy reserves is an important factor in the rating given the elevated debt profile of the county.

ELEVATED DEBT PROFILE WITH PLANS FOR FUTURE ISSUANCE IN THE NEXT TWELVE MONTHS

Moody's believes the county's debt profile will remain elevated over the medium term given a below average payout and plans for additional borrowing. Post-sale the county has approximately \$517.7 million in outstanding debt, which includes \$9.6 million in Flood Control Water Supply Corp. Revenue Bonds that is incorporated into the debt profile of the county and the rating. The county's direct debt burden of 1.3% and overall debt burden of 12.2% as a percent of fiscal year 2012 full value are elevated for similarly rated counties. The county anticipates that approximately \$134.4 million in Unlimited Tax Toll Road Bonds will be supported by toll revenues derived from the Fort Bend County Toll Road Authority. When taking this into consideration, the county's direct and overlapping debt burdens fall to 0.9% and 11.8% respectfully. Payout of the county's debt is relatively slow with only 45.9% of principal amortized in the following ten years with all debt maturing by 2042. The district does not have any interest rate derivatives and is not party to any swap agreements.

The Fort Bend County Toll Road Authority has plans for separate issuances in fiscal 2012 of roughly \$20 to \$25 million for further road construction projects. The new issuances of debt will be senior to current outstanding Unlimited Tax Toll Road Bonds and secured by the revenues of the system. In addition, the county anticipates an issuance of roughly \$175 million in late 2012 for the county's Grand Parkway Project, which will be secured by the county's unlimited tax pledge. County management estimates that future debt issuance, including the \$175 million for the Grand Parkway Project, will be fully supported by the toll revenues generated from the system. Moody's considers the anticipated pressure future debt issuances will place on the county's overall debt profile in future reviews. Future credit reviews will continue to evaluate the county's ability to manage its debt profile and capital needs.

WHAT COULD MAKE THE RATING GO UP

* Maintenance of stable financial operations bolstering reserve position

* Significant tax base expansion

WHAT COULD MAKE THE RATING GO DOWN

* Contraction of assessed valuation

* Narrowing of current reserve position

* Significant increase in debt profile

KEY STATISTICS:

2012 Estimated Population: 606,786

2012 Full Valuation: \$39.8 billion

2012 Full Value per Capita: \$65,595

Direct Debt Burden: 1.3%

Direct Debt Burden (net of toll revenue support): 0.9%

Overall Debt Burden: 12.2%

Overall Debt Burden (net of toll revenue support): 11.8%

Payout of Principal (10 years): 45.9%

FYE 2011 unaudited General Fund balance: \$44.0 million (20.9% of General Fund revenues)

Post-sale Unlimited Tax Road Bonds outstanding: \$176.8 million

Post-sale Unlimited Tax Toll Road Bonds outstanding: \$134.4 million

Post-sale limited tax debt outstanding: \$196.7 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.moody.com for a copy of this methodology.

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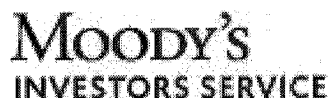
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Fort Bend County, Texas

General Obligation Bonds New Issue Report

Ratings

New Issue

Unlimited Tax Road Bonds,
Series 2012

AA+

Outstanding Debt

Unlimited Tax Bonds
Limited Tax Bonds

AA+

AA+

Rating Outlook

Stable

New Issue Details

Sale Information: \$65,000,000 Unlimited Tax Road Bonds, Series 2012, expected to sell during the week of April 2 via negotiation.

Security: The unlimited tax bonds are direct and voted obligations of the county, payable from the levy and collection of direct and continuing property taxes without legal limit as to rate or amount on all taxable property located within the county.

Purpose: Road construction and to pay issuance costs.

Final Maturity: March 1, 2032.

Key Rating Drivers

Strong Financial Profile: The county's prudent fiscal practices are evident in the consistent maintenance of strong financial reserves while annually investing a significant portion in pay-as-you-go capital projects.

Reliance on Property Taxes: Previously rapid taxable assessed valuation growth has slowed significantly in recent years, including one year of modest decline. Fitch Ratings believes the county's affordable home prices and ample developable land will lead to resumed solid growth, although the timing is unclear. Property taxes comprise more than three fourths of the county's general fund resources, providing some stability to the county's financial profile and budgeting efforts.

High Overall Debt Burden: Direct debt ratios are low, although overall levels are very high, reflecting issuance by the large number of fast-growing school districts, cities, and special districts within the county.

Above-Average Economy: The county benefits from its location within the broad and diverse Houston MSA. County wealth levels as measured by median household income are well above the MSA, state, and national levels. The county's own economy continues to expand and diversify, with unemployment levels below state and national averages.

Related Research

Fitch Rates Fort Bend County, TX ULT Road Bonds 'AA+'; Outlook Stable, March 28, 2012

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Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Assigned	Stable	3/28/12

Credit Profile

Conservative Fiscal Stewardship Yields Strong Financial Performance

The county's financial position and conservative fiscal stewardship are important credit strengths. Over the last four fiscal years, the county consistently posted general fund balances well in excess of its policy to maintain a minimum of 15% of expenditures despite spending nearly \$70 million in pay-as-you-go capital projects during the same period. Annual capital outlay spending averaged nearly 9% of general fund revenues for each year from fiscal 2008 to fiscal 2011. For the close of fiscal 2011, the county recorded an unrestricted general fund balance of \$44 million or 21% of spending. Of this amount, \$33.1 million is committed for completion of the county's five-year capital improvement plan (CIP) general purpose projects.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended Sept. 30)

	2008	2009	2010	2011
Revenues	178,620	202,351	201,339	205,874
Expenditures	167,431	196,582	189,160	201,491
Net Change	11,189	5,769	12,179	4,383
Transfers In	431	2,681	5,101	5,261
Transfers Out	(8,576)	(12,631)	(8,463)	(8,965)
Net Surplus/(Deficit)	3,044	(4,181)	8,817	679
Total Fund Balance	38,745	34,563	43,380	44,059
As % of Expenditures, Transfers Out, and Other Uses	22.0	16.5	22.0	20.9
Unreserved, Undesignated Fund Balance	38,547	34,463	43,269	—
As % of Expenditures, Transfers Out, and Other Uses	21.9	16.5	21.9	—
Unrestricted Fund Balance	—	—	—	43,923
As % of Expenditures, Transfers Out, and Other Uses	—	—	—	20.9

Note: Numbers may not add due to rounding.

For fiscal 2012, the county is experiencing some budgetary pressure due to slower tax base growth compared with prior years' double-digit growth trend. Additionally, the county shifted some tax levy from operations and maintenance to debt service on an ongoing basis. The adopted budget assumes the use of approximately \$9 million in fund balance for planned capital outlays. Operating expenditures were cut by 2.6% despite the addition of 44 new positions primarily for the operation of newly constructed facilities. No pay increases were approved.

High Overall Debt Burden

The county's direct debt burden on the budget is manageable at 12% of fiscal 2011 spending and the pace of principal amortization is slightly below average. At \$7,819 per capita or 9.3% of total market value, overall debt levels are very high, reflecting significant issuance by school districts, special districts, and cities located or partially located within the county.

County officials report they are planning to issue debt to finance road infrastructure projects primarily supported with toll revenue. General purpose facility needs have been met with prior bond proceeds and annual pay-as-you-go funding. The county's five-year CIP is projected to be entirely cash funded with general fund reserves. After this sale the county will have \$41 million remaining in authorized but unissued bonds from the \$156 million bond package

Related Criteria

Tax-Supported Rating Criteria, Aug. 15, 2011

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

approved by 79% of voters in 2007. The remaining authorization is entirely for county roads and will be issued sometime over the next two years.

Affordable Pension Liabilities, But High OPEB Obligations

The county provides pension benefits through the Texas County and District Retirement System (TCDRS). Funding levels are satisfactory at nearly 84% (76% using a more conservative 7% investment return assumption), and the county routinely funds 100% of its annual required contribution (ARC) to TCDRS. In fiscal 2011 the county paid \$11.4 million into TCDRS, or a manageable 5.7% of spending.

The county also provides other post-employment benefits (OPEB) through the TCDRS. The county funds these benefits on a pay-as-you-go basis, which equaled a very low 16% of the ARC in fiscal 2011. Fitch notes the lack of pre-funding as an ongoing credit concern. The unfunded actuarial accrued liability is \$240 million, or a high 228% of annual covered payroll.

Healthy Economic Indicators

Fort Bend County has been one of the fastest growing counties in the state and nation. Currently estimated at more than 600,000, the county's population grew more than 70% since 2000, fueled by its location within the growing and diverse Houston metropolitan economy as well as the availability of ample and affordable housing.

The county's TAV experienced double-digit growth from fiscal years 2006–2009. However, in fiscal 2010, growth slowed and TAV dipped modestly (less than 1%) in fiscal 2011. Tax base growth resumed in fiscal 2012, albeit at a much slower pace than historical levels. Nonetheless, the county's TAV is diverse with the top 10 taxpayers comprising less than 6% of the total tax base. Property tax collections remain strong, with fiscal 2011 collection rates consistent with historically strong levels in excess of 99%.

The county's own economic base has grown significantly within the last decade. Substantial population gains and residential development have resulted in expansion of the retail and construction sectors. Located within the Houston MSA, the county's economy is heavily based on mineral production and manufacturing, as well as, agriculture. The county's unemployment rate of 6.6% in December 2011 is well below the state (7.1%) and national averages (8.3%) for

Debt Statistics

(\$000)

This Issue	65,000
Outstanding Debt	437,810
Less: Self Support	(142,510)
Direct Debt	360,300
Overlapping Debt	4,384,458
Total Overall Debt	4,744,758

Debt Ratios

Direct Debt Per Capita ^a	594
As % of MV ^b	0.7
Overall Debt Per Capita ^a	7,819
As % of MV ^b	9.3

^aPopulation: 606,786 (2012 estimated). ^bMarket value (MV): \$50,758,690,938 (2012). Note: Numbers may not add due to rounding.

Property Value and Population Trends

(\$000, Fiscal Years Ending Sept. 30)

Fiscal Year	Taxable Assessed Valuation	% Change	Population	% Change
2008	33,115,583	—	501,974	—
2009	37,636,015	13.7	528,392	5.3
2010	39,338,323	4.5	547,876	3.7
2011	39,002,614	(0.9)	585,375	6.8
2012	39,802,376	2.1	606,786	3.7

the same period. In addition, the labor force grew 2.3% year-over-year in December 2011. Wealth levels of the county's population are notably higher than those for the Houston MSA, state, and nation.

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