STANDARD & POOR'S RATINGS SERVICES
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Summary:

Nueces County Hospital District, Texas; General Obligation

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Credit Profile		
Nueces Cnty Hosp Dist GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA' long-term and underlying rating (SPUR) on Nueces County Hospital District, Texas' general obligation (GO) debt. The outlook is stable.

The rating reflects our view of the district's:

- Deep property tax base, centered on the petrochemical industry, manufacturing, and tourism; and
- Good income and strong wealth levels;
- Very strong financial position; and
- Moderate overall debt burden mostly due to the significant issuance of underlying entities.

A limited ad valorem tax pledge and a subordinate lien on the district's pledged revenues secure the debt.

Consistent with our Tax-Secured Hospital Debt criteria (published May 3, 2007), Standard & Poor's first considered the financial position and general credit-worthiness of the hospital facilities operated by the issuing district. A hospital assessment is determined on the hospital district in question based on established hospital criteria, taking into account factors such as business position, utilization trends, unrestricted liquidity, cash flow trends, magnitude of operating liabilities, and debt, among other factors. Standard & Poor's completes this analysis as the first step in the rating process as the hospital sector is inherently more vulnerable to business risk than traditional GO credits and may experience rapid swings in fiscal health more often than a comparable school district or municipal issuer, and the healthcare operating assessment can limit the final rating as determined by Standard & Poor's established tax-backed criteria.

Nueces County Hospital District, formed in 1967, is coterminous with Nueces County. The county, with an estimated population of 353,471, is on the Texas Gulf Coast, where it encompasses Agua Dulce, Aransas Pass, Bishop, Corpus Christi, Portland, Robstown, and Point Aransas. The county's location on the Gulf of Mexico and the Intercoastal Waterway provide additional economic development opportunities. Corpus Christi is the county's largest city and economic center; the city's economy is diversified in petrochemical, trade, tourism, services, and government.

The district's property tax base increased at an annual average rate of 4% in fiscal years 2012 and 2013, followed by a significant increase of 10% to $22 billion in fiscal 2014. Fiscal 2015 assessed value (AV) reflects another increase of

7.9% to $23.7 million. District officials indicate that the AV will continue to increase in the near term. Market value per capita, which we consider an indicator of the relative wealth of the tax base, is strong at $62,110. The county's household effective buying income level is good at 91% of the U.S. median. The county's unemployment rate of approximately 5.8% for 2013 remains below the state and national averages.

Historically, the district's general fund relied on transfers from the indigent care fund. However, on Dec. 12, 2011, the district was approved as the Region 4 Anchor Entity under the Texas Health and Human Services Commission's (HHSC) Medicaid Section 1115 Demonstration Waiver. Due to its role as an Anchor entity, the district received waiver payments from the state in fiscal 2013. Furthermore, effective Oct. 1, 2012, the district, Christus Health, and Christus Spohn Health System Corp. entered into a renegotiated membership agreement to benefit the district's provision of medical aid and hospital care to local indigent residents and support the HHSC's Medicaid Section 1115 Demonstration Waiver program. The renegotiated membership agreement superseded and replaced the district's prior agreements with Spohn. As a result of the agreement, the district began receiving Spohn corporate membership revenue in fiscal 2013.

The district ended fiscal 2013 with a surplus of $72.5 million, primarily on account of waiver payments and membership revenue. However, as a Region 4 Anchor entity, the district funds voluntary intergovernmental transfers (IGTs) for certain health care providers in Region 4. The Texas HHSC calculates the amount of IGT needed by each provider and determines timing of the payments to providers. HHSC encountered delays in processing of IGT's for fiscal 2013 and the district paid only $42.7 million in IGTs in fiscal 2013. Due to the delay, the district is anticipating additional expenditure for IGTs in fiscal 2014 and has committed about $68.5 million of its general fund balance. Therefore, the district anticipates a deficit of $63.3 million in fiscal 2014 post the IGTs. Since, the district has committed a portion of its fund balance to remit IGTs, we understand that this would not have an effect on the assigned and unassigned general fund balance and the issuer's financial flexibility will remain very strong. The available general fund balance, which includes the assigned and unassigned portion, stood at $8.8 million, or a very strong 16.9% of the operating expenditures in fiscal 2013 due to the receipt of waiver payments.

Standard & Poor's considers Nueces County Hospital District's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

The overall net debt burden accounts for a moderate 5.2% of fiscal 2014 market value, or $3,254 on a per capita basis. Amortization is rapid, with officials retiring 100% of principal over the next five years. District officials do not plan to issue additional debt any time soon.

Outlook

The stable outlook reflects our view that the district will continue to balance its budget without transfers from the indigent care fund. The district's role as a state-designated Anchor entity will bring in additional revenues from the state as waiver payments, allowing the district to sustain its very strong financial position. We do not anticipate revising the rating in the two-year outlook horizon since we believe that the waiver payments, along with AV increases, will likely allow the district to sustain its current reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: Tax-Secured Hospital Debt, May 3, 2007

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