

July 25, 2017



Hidalgo County, Texas

Pricing Results

Certificates of Obligation, Series 2017



ESTRADA • HINOJOSA
INVESTMENT BANKERS

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Financing Team

Financing Team

ISSUER

HIDALGO COUNTY, TEXAS

FINANCIAL ADVISOR

Estrada Hinojosa & Company, Inc.

BOND COUNSEL

The J. Ramirez Law Firm

UNDERWRITERS

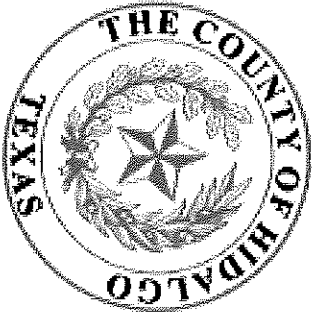
Jefferies: Senior Manager
Frost Bank: Co-Manager
Stephens: Co-Manager

UNDERWRITERS' COUNSEL

Winstead PC

PAYING/ESCROW AGENT

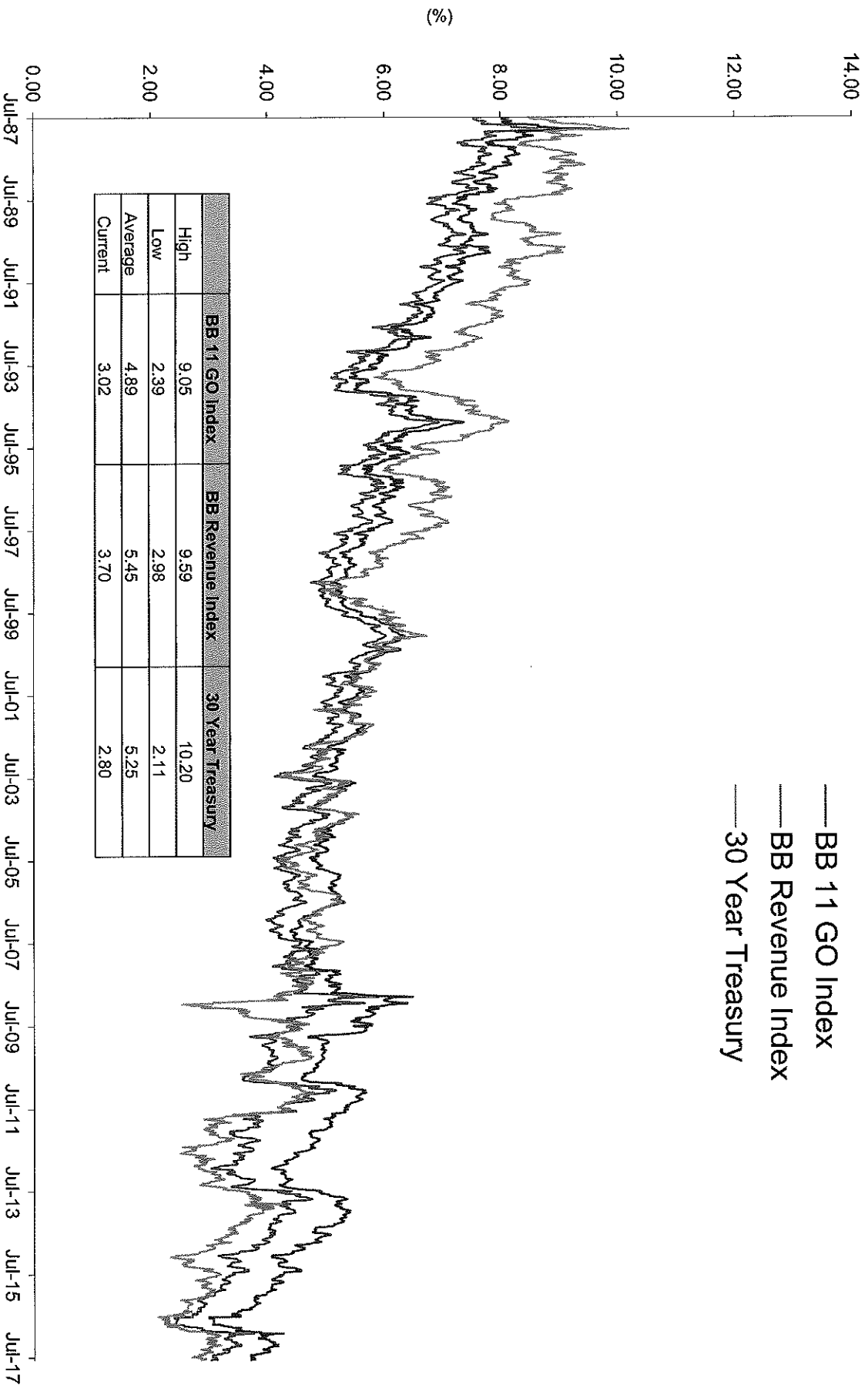
Bank of New York Mellon Trust Company



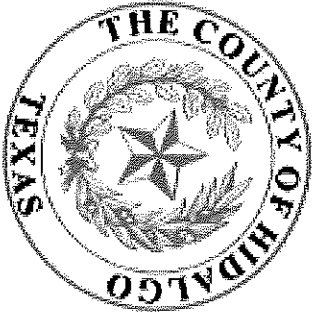
Historical Analysis

Historical Analysis

Bond Buyer Indices vs. 30 Year Treasury: 30 Year History



Source: Bond Buyer



Pricing Results

Sources and Uses of Funds

Series 2017 Certificates

Sources of Funds:

Principal Amount of the Certificates	\$ 28,405,000.00
Net Premium	4,477,124.80
Total Sources of Funds	<u>\$ 32,882,124.80</u>

Uses of Funds:

Deposit to Project Fund	\$ 32,500,000.00
Costs of Issuance	226,052.59
Underwriters' Discount	156,072.21
Total Uses of Funds	<u>\$ 32,882,124.80</u>

COS, Series 2017

2017 COS Project Summary List

Department	Category	Notes	Project Amount
County Wide	Building	Courthouse Related Expenses	\$ 5,000,000
County Wide	Building	Constituent Service Building - Soft Costs	1,000,000
Sheriff/Constable	Equipment	Fleet Replacement	2,500,000
PCT 1	Road/Equipment	Various	6,000,000
PCT 2	Road/Equipment	Various	6,000,000
PCT 3	Road/Equipment	Various	6,000,000
PCT 4	Road/Equipment	Various	6,000,000
GRAND TOTAL			\$ 32,500,000

Financing Assumptions – Progression of Borrowing Costs for 2017 COs

Date	Purpose	Borrowing Cost for 2017 COs*
6/13/2017	Plan of Finance/Rating Presentation	3.12%
7/20/2017	Consensus scale	3.14%
7/24/2017	Pre-Pricing Wire	3.05%
7/24/2017	Final Pricing	3.04%
7/25/2017	Approve Sale of COs	3.04%

* - True Interest Cost

Preliminary Tax Rate Impact: Prior to 2017 COS

FINAL

FYE 12/31	Net Assessed Valuation	NAV Growth	Existing Debt Service ⁽²⁾	2017 COS			Total New Debt Service	Transfers from Other Sources	Total Net Tax Supported Debt Service	Estimated Required I&S Tax Rate ⁽²⁾	Marginal Tax Rate	FYE 12/31
				Principal	Interest	Debt Service						
2017	\$29,847,276,913 ⁽¹⁾	3.6%	\$ 23,171,999	-	-	-	\$ 23,171,999	(1,303,000)	\$ 21,868,999	0.0714	(0.0066)	2017
2018	30,932,376,888	2.0%	21,076,243	-	-	-	21,076,243		21,076,243	0.0648	(0.0066)	2018
2019	31,551,024,426	2.0%	21,598,119	-	-	-	21,598,119		21,598,119	0.0652	0.0004	2019
2020	32,182,044,914	2.0%	21,058,444	-	-	-	21,058,444		21,058,444	0.0621	(0.0031)	2020
2021	32,825,685,813	2.0%	21,620,299	-	-	-	21,620,299		21,620,299	0.0626	0.0005	2021
2022	33,318,071,100	1.5%	21,002,469	-	-	-	21,002,469		21,002,469	0.0597	(0.0029)	2022
2023	33,817,842,166	1.5%	17,922,085	-	-	-	17,922,085		17,922,085	0.0494		2023
2024	34,325,109,799	1.0%	17,923,909	-	-	-	17,923,909		17,923,909	0.0486		2024
2025	34,668,360,897	1.0%	14,216,313	-	-	-	14,216,313		14,216,313	0.0371		2025
2026	35,015,044,506	1.0%	14,219,156	-	-	-	14,219,156		14,219,156	0.0367		2026
2027	35,015,044,506	0.0%	11,146,145	-	-	-	11,146,145		11,146,145	0.0277		2027
2028	35,015,044,506	0.0%	11,142,040	-	-	-	11,142,040		11,142,040	0.0276		2028
2029	35,015,044,506	0.0%	8,238,203	-	-	-	8,238,203		8,238,203	0.0191		2029
2030	35,015,044,506	0.0%	7,371,312	-	-	-	7,371,312		7,371,312	0.0165		2030
2031	35,015,044,506	0.0%	5,366,175	-	-	-	5,366,175		5,366,175	0.0106		2031
2032	35,015,044,506	0.0%	5,363,275	-	-	-	5,363,275		5,363,275	0.0106		2032
2033	35,015,044,506	0.0%	5,357,150	-	-	-	5,357,150		5,357,150	0.0106		2033
2034	35,015,044,506	0.0%	3,695,700	-	-	-	3,695,700		3,695,700	0.0057		2034
2035	35,015,044,506	0.0%	3,692,400	-	-	-	3,692,400		3,692,400	0.0057		2035
2036	35,015,044,506	0.0%	1,140,600	-	-	-	1,140,600		1,140,600	(0.0018)		2036
2037	35,015,044,506	0.0%	1,141,600	-	-	-	1,141,600		1,141,600	(0.0018)		2037
2038	35,015,044,506	0.0%	1,141,000	-	-	-	1,141,000		1,141,000	(0.0018)		2038
2039	35,015,044,506	0.0%	1,138,800	-	-	-	1,138,800		1,138,800	(0.0018)		2039
2040	35,015,044,506	0.0%	-	-	-	-	-		-			2040
2041	35,015,044,506	0.0%	-	-	-	-	-		-			2041
2042	35,015,044,506	0.0%	-	-	-	-	-		-			2042
2043	35,015,044,506	0.0%	-	-	-	-	-		-			2043
2044	35,015,044,506	0.0%	-	-	-	-	-		-			2044
2045	35,015,044,506	0.0%	-	-	-	-	-		-			2045
2046	35,015,044,506	0.0%	-	-	-	-	-		-			2046
2047	35,015,044,506	0.0%	-	-	-	-	-		-			2047
2048	35,015,044,506	0.0%	-	-	-	-	-		-			2048
2049	35,015,044,506	0.0%	-	-	-	-	-		-			2049
2050	35,015,044,506	0.0%	-	-	-	-	-		-			2050
Total			\$ 265,097,062	\$ -	\$ -	\$ -	\$ 265,097,062	\$(1,303,000)	\$ 263,794,062			

⁽¹⁾ Certified Freeze Adjusted TAV. Average annual growth rate of 3.0% over the last 5 years and 12.7% over the last 10 years.
⁽²⁾ Calculated approximately I&S tax rate except 2017-2018. Includes estimated freeze adjustment starting at \$1,612,597.

Preliminary Tax Rate Impact: After Issuance of 2017 COS

FINAL

FYE	Net Assesed Valuation	NAV Growth	Existing Debt Service (2)	2017 COS			Total New Debt Service	Transfers from Other Sources	Total Net Tax Supported Debt Service	Estimated Required I&S Tax Rate(2)	Marginal Tax Rate	FYE
				Principal	Interest	Debt Service						
2017	\$29,847,276,913		\$ 23,171,999	\$ 660,000	\$ 1,328,499	\$ 1,988,499	\$ 23,171,999	\$(1,303,000)	\$ 21,868,999	0.0714	(0.0000)	2017
2018	30,932,376,888	3.6%	21,076,243	615,000	1,305,800	1,920,800	23,064,743		23,064,743	0.0714	0.0000	2018
2019	31,551,024,426	2.0%	21,598,119	970,000	1,275,050	2,245,050	23,518,919		23,518,919	0.0714	0.0000	2019
2020	32,182,044,914	2.0%	21,058,444	1,015,000	1,226,550	2,241,550	23,303,494		23,303,494	0.0693	0.0693	2020
2021	32,825,685,813	2.0%	21,620,299	1,070,000	1,175,800	2,245,800	23,861,849		23,861,849	0.0696	0.0696	2021
2022	33,318,071,100	1.5%	21,002,469	1,120,000	1,122,300	2,242,300	23,248,269		23,248,269	0.0667	0.0667	2022
2023	33,817,842,166	1.5%	17,922,085	1,175,000	1,066,300	2,241,300	20,164,385		20,164,385	0.0562	0.0562	2023
2024	34,325,109,799	1.5%	17,923,909	1,175,000	1,066,300	2,241,300	20,165,209		20,165,209	0.0554	0.0554	2024
2025	34,668,360,897	1.0%	14,216,313	1,235,000	1,007,550	2,242,550	16,458,863		16,458,863	0.0438	0.0438	2025
2026	35,015,044,506	1.0%	14,219,156	1,300,000	945,800	2,245,800	16,464,956		16,464,956	0.0433	0.0433	2026
2027	35,015,044,506	0.0%	11,146,145	1,365,000	880,800	2,245,800	13,391,945		13,391,945	0.0343	0.0343	2027
2028	35,015,044,506	0.0%	11,142,040	1,430,000	812,550	2,242,550	13,384,590		13,384,590	0.0342	0.0342	2028
2029	35,015,044,506	0.0%	8,238,203	1,505,000	741,050	2,246,050	10,484,253		10,484,253	0.0257	0.0257	2029
2030	35,015,044,506	0.0%	7,371,312	1,580,000	665,800	2,245,800	9,617,112		9,617,112	0.0232	0.0232	2030
2031	35,015,044,506	0.0%	5,366,175	1,655,000	586,800	2,241,800	7,607,975		7,607,975	0.0172	0.0172	2031
2032	35,015,044,506	0.0%	5,353,625	1,740,000	504,050	2,244,050	7,597,675		7,597,675	0.0172	0.0172	2032
2033	35,015,044,506	0.0%	5,363,275	1,825,000	417,050	2,242,050	7,605,325		7,605,325	0.0172	0.0172	2033
2034	35,015,044,506	0.0%	5,357,150	1,920,000	325,800	2,245,800	7,602,950		7,602,950	0.0172	0.0172	2034
2035	35,015,044,506	0.0%	3,695,700	1,995,000	249,000	2,244,000	5,939,700		5,939,700	0.0123	0.0123	2035
2036	35,015,044,506	0.0%	3,692,400	2,075,000	169,200	2,244,200	5,936,600		5,936,600	0.0123	0.0123	2036
2037	35,015,044,506	0.0%	1,140,600	2,155,000	86,200	2,241,200	3,381,800		3,381,800	0.0048	0.0048	2037
2038	35,015,044,506	0.0%	1,141,600				1,141,600		1,141,600	(0.0018)	(0.0018)	2038
2039	35,015,044,506	0.0%	1,141,000				1,141,000		1,141,000	(0.0018)	(0.0018)	2039
2040	35,015,044,506	0.0%	1,138,800				1,138,800		1,138,800	(0.0018)	(0.0018)	2040
2041	35,015,044,506	0.0%										2041
2042	35,015,044,506	0.0%										2042
2043	35,015,044,506	0.0%										2043
2044	35,015,044,506	0.0%										2044
2045	35,015,044,506	0.0%										2045
2046	35,015,044,506	0.0%										2046
2047	35,015,044,506	0.0%										2047
2048	35,015,044,506	0.0%										2048
2049	35,015,044,506	0.0%										2049
2050	35,015,044,506	0.0%										2050
Total			\$ 265,097,062	\$ 28,405,000	\$ 15,891,949	\$ 44,296,949	\$ 309,394,011	\$(1,303,000)	\$ 308,091,011			

(1) Certified Freeze Adjusted TAV. Average annual growth rate of 3.0% over the last 5 years and 12.7% over the last 10 years.
(2) Calculated approximate I&S tax rate except 2017-2018. Includes estimated freeze adjustment starting at \$1,612,597.

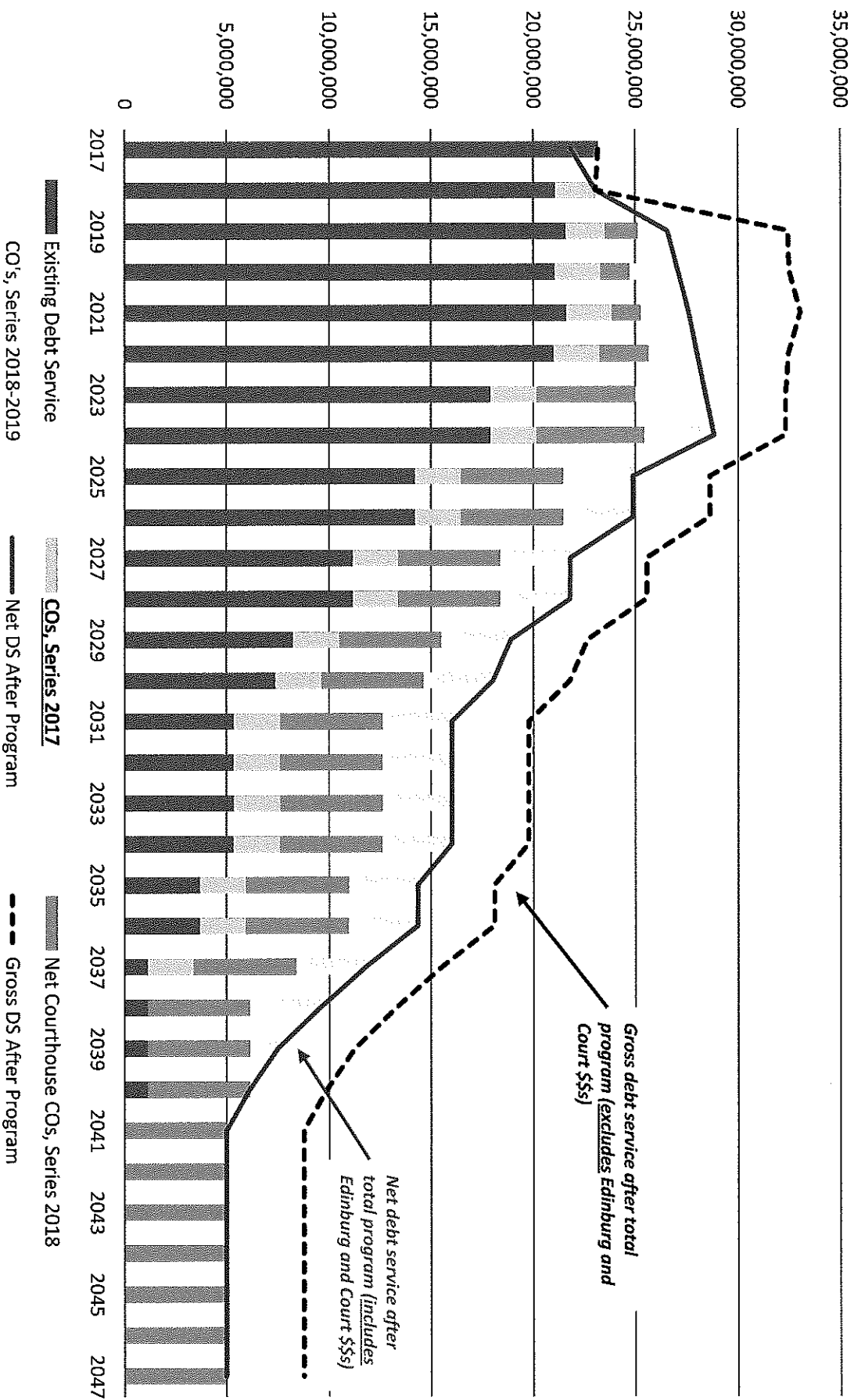
Preliminary Tax Rate Impact: After 2017 COs, 2018 Courthouse COs, Future CIP

FINAL

FYE	Net Assessed Value	NAV Growth	Existing Debt Service	2017 COs ⁽²⁾		2018 Courthouse COs ⁽²⁾		2018 COs ⁽²⁾		2019 COs ⁽²⁾		Total New Debt Service	County Contributions	Total Net Tax Supported Debt Service	Estimated Required I&S Tax Rate ⁽⁴⁾	Marginal Tax Rate
				Debt Service	Other Contributions ⁽³⁾	Net Debt Service	Debt Service	Debt Service	Debt Service							
2017	\$29,847,276,913	(1)	\$ 23,171,999									\$ 23,171,999	\$ (1,303,000)	\$ 21,868,999	0.0714	(0.0000)
2018	30,932,376,888	3.6%	21,076,243	1,988,499	7,483,252	(4,000,000)	3,483,252	1,434,683	1,338,600	1,033,242	23,064,743	(1,870,000)	26,566,854	0.0714	(0.0000)	
2019	31,551,024,426	2.0%	21,598,119	1,920,800	6,831,200	(2,750,000)	4,081,200	1,357,600	1,357,600	970,550	28,436,854	(2,660,000)	27,096,536	0.0814	0.0000	
2020	32,182,044,914	2.0%	21,058,444	2,245,050	6,842,700	(2,750,000)	4,092,700	1,375,100	1,375,100	988,050	29,756,536	(2,670,000)	27,612,699	0.0814	(0.0000)	
2021	32,825,685,813	2.0%	21,620,299	2,241,550	6,852,700	(2,750,000)	4,102,700	1,375,100	1,375,100	988,050	29,714,119	(1,700,000)	28,014,119	0.0814	(0.0000)	
2022	33,318,071,100	1.5%	21,002,469	2,245,800	6,861,200	(2,750,000)	4,111,200	2,055,100	2,055,100	1,347,850	29,580,735	(1,160,000)	28,420,735	0.0814	(0.0000)	
2023	33,817,842,166	1.5%	17,922,085	2,242,300	8,751,200	(2,750,000)	6,009,200	2,055,700	2,055,700	1,347,850	29,577,959	(740,000)	28,837,959	0.0814	0.0000	
2024	34,325,109,799	1.5%	17,923,909	2,242,550	8,759,200	(2,750,000)	6,009,400	2,057,300	2,057,300	1,349,850	25,875,413	(1,000,000)	24,875,413	0.0688	0.0000	
2025	34,668,360,997	1.0%	14,216,313	2,242,550	8,759,400	(2,750,000)	6,011,200	2,055,600	2,055,600	1,349,750	25,881,506	(1,000,000)	24,881,506	0.0681	0.0000	
2026	35,015,044,506	1.0%	14,219,156	2,245,800	8,759,200	(2,750,000)	6,009,000	2,060,600	2,060,600	1,347,550	22,809,095	(1,000,000)	21,809,095	0.0591	0.0000	
2027	35,015,044,506	0.0%	11,146,145	2,245,800	8,759,000	(2,750,000)	6,007,500	2,056,700	2,056,700	1,348,250	22,797,040	(1,000,000)	21,797,040	0.0590	0.0000	
2028	35,015,044,506	0.0%	11,142,040	2,246,050	8,757,500	(2,750,000)	6,011,100	2,056,200	2,056,200	1,351,550	19,906,103	(1,000,000)	18,906,103	0.0505	0.0000	
2029	35,015,044,506	0.0%	8,238,203	2,246,050	8,761,100	(2,750,000)	6,008,900	2,057,500	2,057,500	1,352,150	19,035,662	(1,000,000)	18,035,662	0.0479	0.0000	
2030	35,015,044,506	0.0%	7,371,312	2,245,800	8,758,900	(2,750,000)	6,012,400	2,056,600	2,056,600	1,350,050	17,025,225	(1,000,000)	16,025,225	0.0420	0.0000	
2031	35,015,044,506	0.0%	5,366,175	2,241,800	8,760,600	(2,750,000)	6,012,300	2,056,200	2,056,200	1,350,250	17,014,425	(1,000,000)	16,014,425	0.0420	0.0000	
2032	35,015,044,506	0.0%	5,363,625	2,244,050	8,760,300	(2,750,000)	6,012,400	2,056,000	2,056,000	1,350,250	17,021,175	(1,000,000)	16,021,175	0.0420	0.0000	
2033	35,015,044,506	0.0%	5,363,275	2,242,050	8,762,400	(2,750,000)	6,010,500	2,055,700	2,055,700	1,351,650	17,021,300	(1,000,000)	16,021,300	0.0420	0.0000	
2034	35,015,044,506	0.0%	5,357,150	2,245,800	8,761,000	(2,750,000)	6,010,500	2,060,000	2,060,000	1,352,250	15,362,450	(1,000,000)	14,362,450	0.0371	0.0000	
2035	35,015,044,506	0.0%	3,695,700	2,244,000	8,760,500	(2,750,000)	6,009,250	2,060,250	2,060,250	1,349,250	15,355,350	(1,000,000)	14,355,350	0.0371	0.0000	
2036	35,015,044,506	0.0%	3,692,400	2,244,200	8,759,250	(2,750,000)	6,008,000	2,056,250	2,056,250	1,348,750	12,798,800	(1,000,000)	11,798,800	0.0296	0.0000	
2037	35,015,044,506	0.0%	1,140,600	2,241,200	8,752,000	(2,750,000)	6,008,000	2,058,000	2,058,000	1,350,500	10,558,100	(1,000,000)	9,558,100	0.0230	0.0000	
2038	35,015,044,506	0.0%	1,141,600	-	8,758,000	(2,750,000)	6,012,000	-	-	1,348,250	8,502,250	(1,000,000)	7,502,250	0.0169	0.0000	
2039	35,015,044,506	0.0%	1,141,000	-	8,752,000	(2,750,000)	6,008,000	-	-	-	7,146,800	(1,000,000)	6,146,800	0.0129	0.0000	
2040	35,015,044,506	0.0%	1,138,800	-	8,758,000	(2,750,000)	6,010,750	-	-	-	6,010,750	(1,000,000)	5,010,750	0.0096	0.0000	
2041	35,015,044,506	0.0%	-	-	8,750,000	(2,750,000)	6,009,250	-	-	-	6,009,250	(1,000,000)	5,009,250	0.0096	0.0000	
2042	35,015,044,506	0.0%	-	-	8,758,250	(2,750,000)	6,008,000	-	-	-	6,008,000	(1,000,000)	5,008,000	0.0096	0.0000	
2043	35,015,044,506	0.0%	-	-	8,759,250	(2,750,000)	6,011,250	-	-	-	6,011,250	(1,000,000)	5,011,250	0.0096	0.0000	
2044	35,015,044,506	0.0%	-	-	8,761,250	(2,750,000)	6,008,000	-	-	-	6,008,000	(1,000,000)	5,008,000	0.0096	0.0000	
2045	35,015,044,506	0.0%	-	-	8,758,000	(2,750,000)	6,007,750	-	-	-	6,007,750	(1,000,000)	5,007,750	0.0096	0.0000	
2046	35,015,044,506	0.0%	-	-	8,757,750	(2,750,000)	6,009,500	-	-	-	6,009,500	(1,000,000)	5,009,500	0.0096	0.0000	
2047	35,015,044,506	0.0%	-	-	8,759,500	(2,750,000)	6,012,250	-	-	-	6,012,250	(1,000,000)	5,012,250	0.0096	0.0000	
2048	35,015,044,506	0.0%	-	-	8,762,250	(2,750,000)	-	-	-	-	-	-	-	-	-	-
2049	35,015,044,506	0.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2050	35,015,044,506	0.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total			\$ 265,097,082	\$ 44,296,949	\$ 255,798,152	\$ (83,750,000)	\$ 172,018,152	\$ 38,423,683	\$ 25,937,242	\$ 545,773,089	\$ (36,103,000)	\$ 509,670,089				

(1) Certified Freeze Adjusted TAV. Average annual growth rate of 3.0% over the last 5 years and 12.7% over the last 10 years.
 (2) Assumes current market (4-19-2017) for 2017 COs and current market + 100bps for other bond transactions.
 (3) Combination of City of Edinburg contributions (\$1.5MM/year) + Courthouse Filing Fees (\$1.25MM/year). Two years worth of filing fees will be applied in the first year.
 (4) Calculated approximately I&S tax rate except 2017-2018. Includes estimated freeze adjustment starting at \$1,612,597.

Pro Forma Debt Profile After 2017



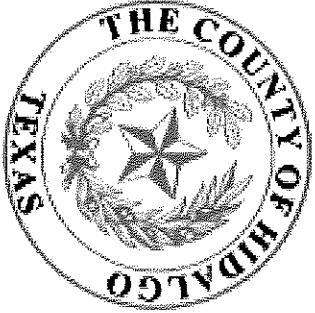
Ratings

The Hidalgo County Certificates of Obligation, Series 2017 received the following ratings:

Agency	Rating
S&P	AA- / Stable Outlook
Moody's	Aa2 / No Outlook

These ratings represent high quality ratings from each of the rating agencies.

Note, the County also maintains a rating from AA- from Fitch Ratings on other outstanding bonds.



Rating Reports

CREDIT OPINION

18 July 2017

New Issue

[Rate this Research](#) >>

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Hidalgo (County of) TX

New Issue: Moody's assigns Aa2 to Hidalgo County, TX's GOLT CO's, Series 2017

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to Hidalgo County, TX's \$29 million Certificates of Obligation, Series 2017. Concurrently, we maintain the Aa2 rating on \$198 million of outstanding parity debt.

The Aa2 rating reflects the county's large and stable tax base with weak wealth indices. The rating also incorporates the county's stable financial operations, healthy reserves and liquidity, and manageable debt profile that is expected to increase in the near term given plans for significant borrowing in 2018.

Credit Strengths

- » Large, stable tax base and regionally important economy
- » Stable financial operations
- » Manageable debt and pension burdens

Credit Challenges

- » Weak wealth levels
- » Significant future debt plans for a new courthouse

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Significantly improved wealth levels, including a reduction of the county's unemployment rate
- » Trend of accelerating annual tax base growth
- » Trend of operational surpluses leading to a material improvement of the County's liquidity and reserve position

Factors that Could Lead to a Downgrade

- » Significant deterioration of resident wealth levels and employment rate

- » Trend of structurally imbalanced operations reducing the liquidity and reserve position
- » Substantial decline of the tax base
- » Significantly increased debt profile absent corresponding tax base growth

Key Indicators

Exhibit 1

Hidalgo (County of) TX	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 27,420,238	\$ 27,044,262	\$ 27,320,029	\$ 27,911,368	\$ 28,653,116
Full Value Per Capita	\$ 36,201	\$ 34,904	\$ 34,554	\$ 34,610	\$ 34,976
Median Family Income (% of US Median)	54.4%	55.2%	57.0%	57.8%	56.8%
Finances					
Operating Revenue (\$000)	\$ 210,212	\$ 206,835	\$ 216,447	\$ 224,650	\$ 236,198
Fund Balance as a % of Revenues	23.1%	24.8%	23.0%	19.8%	19.3%
Cash Balance as a % of Revenues	65.7%	68.4%	66.9%	59.9%	63.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 282,949	\$ 268,174	\$ 335,613	\$ 342,778	\$ 336,240
Net Direct Debt / Operating Revenues (x)	1.3x	1.3x	1.6x	1.5x	1.4x
Net Direct Debt / Full Value (%)	1.0%	1.0%	1.2%	1.2%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.7x	0.9x	1.0x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.6%	0.7%	0.8%	1.0%

Source: Moody's Investors Service; County Audited Financial Statements

Detailed Rating Considerations

Economy and Tax Base: Large Border County with Lower Wealth Indices

We expect the county's very large \$32.5 billion tax base will continue growing in the near term. Over the last five years, the county's full valuation increased an average 3.7% annually, including a 6% increase in 2017 due to new development and appreciation of single and multi-family residential property values. Hidalgo County is located in the Rio Grande Valley of south Texas along the Mexico border and is supported by cross-border trade and manufacturing operations across the border in Reynosa, Mexico. Taxpayer concentration is low, as the ten largest taxpayers account for 3% of fiscal 2017 full valuation. Management expects the recently opened University of Texas Rio Grande Valley will perpetuate the county's economic growth in the medium term. Ongoing development of several big box stores and retail outlets in Edinburg will also foster continued tax base growth in the near term.

Resident wealth levels are weak with median family income levels equivalent to 56.8% of the nation, a credit weakness. A large 34% of the county's population is impoverished, compared to 14.5% for the nation. At 7.5% in May 2017, unemployment in Hidalgo County was above the state (4.4%) and nation (4.1%) for the same period.

Financial Operations and Reserves: Below Median But Healthy Reserve Levels With Stable Operations

The county's General Fund reserve is expected to remain stable in the near term after two years of structurally imbalanced financial operations in fiscal 2013 and fiscal 2014 followed by a surplus in fiscal 2015. Through fiscal 2012, the county historically adopted imbalanced General Fund budgets and successfully closed the budget gaps at year-end due to controlled spending, few unexpected expenditures, and conservative revenue forecasts. In fiscal years 2013 and 2014, the General Fund balance declined in each year as expenditures related to detention facility repairs and the Medicaid 1115 waiver program outpaced annual revenues. At year-end 2015, the county reported a total General Fund balance of \$46.8 million, or 25.2% of revenues. Of the total fund balance, \$26.4 million (20.8% of revenues) is unassigned, and \$12.2 million is assigned for various capital projects. The county's unassigned General Fund

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

balance has historically exceeded management informal target of 10% to 15% of budgeted expenditures. Fiscal year 2015 General Fund revenues were primarily derived from taxes (83.2%) and charges for services (8.9%).

The Fiscal 2016 General Fund balance grew \$4.4 million, to \$51.3 million (26.5% of revenues) based on the county's draft audit. A small surplus is expected for fiscal 2017, although officials report that overcrowding of the county's jail is a budget pressure. Future reviews will focus on the county's ability to continue structurally balanced financial operations.

LIQUIDITY

Liquidity is expected to remain healthy in the near term. At year-end 2015, the General Fund reported net cash and investments of \$134.4 million, representing a very strong 72.3% of revenues. Property taxes, the county's largest revenue source, are due at the end of each calendar year, which inflates the county's cash position. Net cash and investments in the Operating Fund (General, Debt Service, and Road and Bridge Funds) totaled \$149.1 million and a strong 63.1% of revenues. Liquidity is expected to remain stable based on the county's 2016 draft audit and fiscal 2017 year to date results.

Debt and Pensions

The county's debt position is expected to increase given plans to issue additional GOLT debt in the near term. The direct debt burden is below average at 0.7% of full valuation. The county plans to issue up to \$150 million of GOLT debt in 2018 to construct a new courthouse; however, the project cost and debt issuance timeline may change. Amortization is moderate with 67.3% of principal repaid within 10 years.

DEBT STRUCTURE

Payout of the county's \$227 million in outstanding general obligation limited tax debt is below average with 67.3% of principal retired in ten years. All outstanding debt matures in fiscal 2040.

DEBT-RELATED DERIVATIVES

The county is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

Hidalgo County has a manageable pension burden based on unfunded liabilities from its participation in the Texas County and District Retirement System, a multi-employer defined benefit agent plan. The county consistently makes the full annual contribution, totaling \$13.7 million in fiscal 2015, a manageable 5.8% of operating expenditures. Moody's adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, was \$370.4 million as of fiscal year 2015, a moderate average 1.6 times operating revenues. The county's three year average ANPL to operating revenues is a manageable 1.2 times while the three year average ANPL to full value is 0.97%. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities.

The county's fiscal 2015 fixed costs (debt service, pension and OPEB contributions) was \$51.0 million, or 22% of operating revenues.

Management and Governance

Created in 1852, the county is governed by a Commissioners Court consisting of a county judge and four county commissioners, one for each of the four precincts. The county judge is elected for a term of four years and the commissioners served staggered four-year terms. Management has an informal policy to maintain an unassigned General Fund balance equal to 10% to 15% of budgeted expenditures, which is low for the rating category. The county historically adopts structurally imbalanced General Fund budgets, which, until fiscal 2013, it successfully closed at fiscal year-end.

Texas Counties have an Institutional Framework score of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap, which cannot be overridden. However, the cap of \$8 per \$1,000 of assessed values, with no more than \$4 allocated for debt service, still allows for significant revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The bonds and certificates are secured by an annual ad valorem tax levied against all taxable property in the county, within the limits prescribed by law. The certificates are additionally secured by a limited pledge (not to exceed \$1,000) of surplus net revenues of the county's park system.

Use of Proceeds

Proceeds from the 2017 CO's will be used for infrastructure projects through out the county.

Obligor Profile

Hidalgo County is located in south Texas along the Mexico border in the Rio Grande Valley. The county encompasses 1,570 square miles and its population of 819,217 residents (based on the 2015 American Community Survey).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Hidalgo (County of) TX

Issue	Rating
Certificates of Obligation, Series 2017	Aa2
Rating Type	Underlying LI
Sale Amount	\$28,980,000
Expected Sale Date	07/25/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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REPORT NUMBER 1080644

RatingsDirect®

Summary:

Hidalgo County, Texas; General Obligation

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Outlook

Related Research

Summary:

Hidalgo County, Texas; General Obligation

Credit Profile

US\$28.98 mil certs of oblig ser 2017 dtd 08/01/2017 due 08/15/2037

<i>Long Term Rating</i>	AA-/Stable	New
Hidalgo Cnty GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Hidalgo Cnty GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Hidalgo County, Texas' series 2017 certificates of obligation. At the same time, we affirmed our 'AA-' long-term rating on the county's general obligation (GO) debt. The outlook is stable.

The certificates are secured by an ad valorem tax levied against all taxable property in the county within limits prescribed by law. The certificates are additionally secured by a pledge of not more than \$1,000 derived from surplus net revenues from the operation of the county's park system. The state constitutional limit is 80 cents per \$100 of assessed value (AV). The state attorney general will not approve limited-tax debt in an amount that produces debt service requirements exceeding that which can be paid from \$0.40 of the foregoing \$0.80 maximum tax rate. For fiscal 2017, the total tax rate was 59 cents per \$100 of AV, including 7.14 cents for debt service. Due to the county's current tax rate flexibility, very strong liquidity, and high investment-grade rating, we do not differentiate between the limited- and unlimited-tax pledges.

We understand officials plan to use series 2017 certificate proceeds to finance the acquisition of land and rights of way for road and drainage improvements; park improvements; equipment purchases; and construction and renovation of county facilities.

The rating reflects our opinion of the following factors for the county:

- Weak economy, with market value per capita of \$37,951 and projected per capita effective buying income at 50.7%, but that is benefitting from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 69.3% of total governmental fund expenditures and 12.3x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.6% of expenditures and net

direct debt that is 57.4% of total governmental fund revenue, as well as rapid amortization, with 66.2% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and

- Strong institutional framework score.

Weak economy

We consider the county's economy weak. Hidalgo County, with an estimated population of 854,703, is located in the McAllen-Edinburg-Mission, Texas MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 50.7% of the national level and per capita market value of \$37,951. Overall, the county's market value grew by 5.8% over the past year to \$32.4 billion in 2017. The county unemployment rate was 7.8% in 2016.

The 1,583-square-mile county encompasses McAllen, Pharr, Edinburg (the county seat), Mission, Weslaco, and Mercedes, with McAllen, Edinburg, and Mission being the largest municipalities and economic centers. The area economy is diversified by the tourist industry, agribusiness, and international trade with Mexico. The county has five international ports of entry for commercial and pedestrian traffic, and international trade with Mexico is a main driver for the area's economy. The concentration of twin plants, or maquiladoras, in Mexico fuels commercial traffic into the U.S. Higher-education opportunities include the University of Texas-Rio Grande Valley and South Texas College. County officials indicate economic conditions remain favorable, noting continued residential and commercial development. S&P anticipates the county's property tax base growth will be similar to that in recent years.

Strong management

We view the county's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights of practices include management's:

- Conservative revenue and expenditure assumptions based on five-year historical trend analysis in collaboration with the county auditor;
- Reporting budget-to-actual performance to the governing body monthly, with the ability to make amendments as needed with the commissioner's court approval;
- Formal debt-management policy that includes quantitative measurable benchmarks and ratios;
- Formal investment policy that complies with the state statutes, with the county treasurer reporting on holdings, performance, and maturity to the legislature at least quarterly; and
- Formal reserve policy to maintain an unreserved fund balance of no less the 10% or greater than 15% of operating and debt service budget for the new fiscal year as a stabilization fund in the general fund at the annual adoption of the budget.

We understand the county currently does not have formal practices pertaining to long-term financial planning and long-term capital planning.

Strong budgetary performance

Hidalgo County's budgetary performance is strong in our opinion. The county had slight surplus operating results in the general fund of 0.5% of expenditures, and surplus results across all governmental funds of 11.6% in fiscal 2015.

We expect budgetary performance to remain strong over the next two years. Fiscal 2015's positive results were largely supported by increased property tax revenues and special assessments. Unaudited fiscal 2016 results indicate the county ended the year with a 1.8% operating surplus. Although a balanced budget was adopted for fiscal 2017, officials project a surplus of roughly \$4 million, which they plan to add to fund balance, which would equate to roughly 2% of budgeted operating expenditures. The fiscal 2018 budget is still in development, but officials anticipate the final budget will be balanced. We expect performance across all governmental funds in the near term will be similar to historical results.

In fiscal 2016, property taxes generated 94% of general revenue and have been a reliable revenue source for the county.

Very strong budgetary flexibility

Hidalgo County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 21% of operating expenditures, or \$38.6 million.

We expect budgetary flexibility to remain very strong over the next two years, supported by management's desire to gradually increase available reserves closer to 25% of expenditures. For fiscal 2017, officials project adding about \$4 million to the unassigned general fund balance by year-end, although this could be offset by the use of \$3.9 million for the new courthouse that was set aside as assigned fund balance in fiscal 2016. The fiscal 2018 budget is currently being developed, but we understand there are no plans to significantly spend down available reserves.

Very strong liquidity

In our opinion, Hidalgo County's liquidity is very strong, with total government available cash at 69.3% of total governmental fund expenditures and 12.3x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

We anticipate that the county's total government cash position will remain very strong over the next two years. As of March 31, 2017, the county's investments are held predominantly in the state investment pool, certificates of deposits, and federal/state agencies. We do not view these investments as aggressive. Our opinion that the county maintains strong access to external liquidity is based on the county's issuance of GO bonds and certificates of obligation over the last 20 years. At this time, we understand the county does not have contingent liabilities that could cause immediate or future liquidity pressures.

Strong debt and contingent liability profile

In our view, Hidalgo County's debt and contingent liability profile is strong. Total governmental fund debt service is 5.6% of total governmental fund expenditures, and net direct debt is 57.4% of total governmental fund revenue. Approximately 66.2% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. Negatively affecting our view of the county's debt profile is its significant medium-term debt plans.

Overall net debt as a percentage of market value was 5.8%. We understand the county will issue around \$119 million in debt to support construction of a new county courthouse, which is projected to add one cent to the debt service tax rate. As a result, we note that our view of the county's debt profile could further weaken should future debt issuances cause the county's 10-year amortization schedule to fall below 65%.

Hidalgo County's combined required pension and actual other postemployment benefit contributions totaled 3.3% of total governmental fund expenditures in 2015. The county made its full annual required pension contribution in 2015.

The county participates in the Texas County & District Retirement System, a statewide, defined-benefit pension plan administered by Texas. The county's required pension contribution is actuarially determined and calculated at the state level based on an actuary study. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the county's net pension liability was \$29.3 million as of Dec. 31, 2015. The plan was 93.06% funded based on its fiduciary net position as a percent of the total pension liability. (For additional details on GASB nos. 67 and 68, please see our report, titled "Incorporating GASB 67 And 68: Evaluating Pension/Other Postemployment Benefit Obligations Under Standard & Poor's U.S. Local Government General Obligation (GO) Criteria," published Sept. 2, 2015, on RatingsDirect.)

The county does not offer formal postemployment benefits but does allow retirees to participate in the county's health benefits program (implicit rate subsidy) with retirees paying premiums that are then deposited in the county's insurance fund. Members with the county can retire at age 60 and above with eight or more years of service, with 20 years of service regardless of age, or when their age and years of service equals 75 or more.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects our opinion that we will likely not change the rating during the two-year outlook period. We expect Hidalgo County to likely maintain its very strong budgetary flexibility and liquidity, supported by its strong management. We also believe the county's economy will likely remain stable and experience ongoing growth in all sectors and continue to benefit from its proximity to the McAllen-Edinburg-Mission MSA.

Upside scenario

We could raise the rating if economic indicators significantly improve, in addition to the county strengthening its financial practices, with all other credit factors remaining stable.

Downside scenario

We could lower the rating if the issuance of additional debt results in a weak debt profile, along with a trend of just adequate budgetary performance that leads to available fund balance falling below the policy level.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of July 18, 2017)

Ratings Detail (As Of July 18, 2017) (cont.)

Hidalgo Cnty GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Hidalgo Cnty GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Hidalgo Cnty GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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