08 MAR 2024

Fitch Rates Williamson County's (TX) ULT Road Bonds & Tax Notes; Affirms IDR; Outlook Stable

Fitch Ratings - Austin - 08 Mar 2024: Fitch Ratings has assigned a 'AAA' rating to the following Williamson County, Texas (the county) obligations:

--$160 million unlimited tax (ULT) road bonds, series 2024;

--$167 million limited tax (LT) notes, series 2024.

Fitch has also affirmed the following county ratings at 'AAA':

--Long-Term Issuer Default Rating (IDR);

--Over $340 million outstanding ULT obligations;

--Over $500 million outstanding LT obligations.

The Rating Outlook is Stable.

The notes will be sold via negotiation in mid- to late March 2024. Proceeds from the sale of the ULT road bonds and LT notes will be used to finance roadway development, which includes but is not limited to new construction, the expansion and upgrades of existing roads, right-of-way acquisition and utility relocation.

SECURITY

The series 2024 notes are payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the county.

ANALYTICAL CONCLUSION

The 'AAA' IDR, ULT, and LT bond and note ratings are based on the county's superior operating profile, including expectations for continued strong growth prospects for revenue and a moderate long-term liability burden. The ratings also reflect the county's solid expenditure flexibility and ample reserve levels positioning it well to withstand future economic downturns.

Economic Resource Base

Williamson County occupies 1,104 square miles in central Texas with a 2022 population of approximately 671,400, a 59% increase from the 2010 Census amount. The county, a component of the

Austin-Round Rock-Georgetown, TX MSA, is situated just north of Austin along the heavily-traversed Interstate 35 corridor.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Sustained expansion in the regional economy has driven strong revenue growth in Williamson County over the past decade. Post-pandemic growth prospects remain favorable due to ongoing and prospective residential and commercial development within the county. The county retains a high legal ability to increase operating revenues despite recent legislative action that restricts annual property tax rate increases.

Expenditure Framework: 'aa'

Fitch expects the county's pace of spending to remain below its healthy revenue trends given its limited responsibilities as prescribed by the Texas constitution. Carrying costs were slightly elevated at roughly 22% of fiscal 2022 governmental spending, and are projected to remain elevated due to recent debt issuances and an ascending debt service schedule. The metric is inflated in part due to a rapid principal amortization schedule of direct debt. Additional expenditure flexibility is derived from the county's ability to control labor costs and annual pay-go capital spending that could be redirected if necessary.

Long-Term Liability Burden: 'aa'

Fitch adjusted net pension liabilities plus direct and overlapping debt represent roughly 19% of personal income, a level at the high end of the range for a 'aa' assessment. Overlapping debt represents a large percentage (84%) of the metric. Fitch does not expect a near-term reduction in the county's moderately elevated long-term liability burden, given the county's potential additional debt and likely increases in overlapping debt due to ongoing population growth.

Operating Performance: 'aaa'

The county's financial flexibility is bolstered by ample reserve levels and a pay-go capital program consistently funded from reserves in excess of the policy target. Fitch expects that the county will demonstrate strong financial resilience through future economic downturns due to its superior inherent budget flexibility supported by its high revenue-raising capacity and solid expenditure controls.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable at the 'AAA' rating level.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained increases in carrying costs exceeding 25% of total governmental spending impacting overall expenditure flexibility;

--A rise in the county's long-term liability burden sustained at above 20% of personal income levels;

--Material erosion of the county's gap-closing capacity to a level inconsistent with the current financial resilience assessment.

CURRENT DEVELOPMENTS

Officials adopted a fiscal 2023 general fund budget that included a planned use of $14 million of fund balance to finance capital improvements. Based on unaudited information provided by management, the county's available general fund balance at FYE 2023 totaled about $200 million, indicating an increase in unrestricted reserves by 14% over FYE 2022. Management primarily attributes the sizable surplus to increases in investment income, EMS fee-related revenue and savings incurred due to several unfilled FTEs.

Prior to one-time drawdowns for capital expenses, the fiscal 2024 adopted general fund budget shows revenues outpacing expenditures by $13.4 million. When accounting for the planned use of reserves, the fiscal 2024 budget reflects a general fund balance drawdown of $63 million. Due to conservative budgeting, the county's operating results are better-than-budgeted. Nevertheless, even if the $63 million drawdown were fully realized, the reserve cushion can comfortably absorb the loss without impairing Fitch's view of the county's financial resilience. With approximately six months remaining in the current fiscal year, management indicates that key revenue streams are trending well.

CREDIT PROFILE

Williamson County is one of the fastest growing counties in Texas, with its population increasing by almost 60% between 2010 and 2022. The county's growth has been fueled by its location on the Interstate 35 corridor and inclusion within the Austin MSA. The technology sector is the primary driver for job growth in the region.

The employment base is anchored by an abundance of high technology firms, including the corporate headquarters of Dell Computer, an Apple Inc. campus, and a SpaceX facility. In addition to the tech industry, the Williamson County employment base includes manufacturing, government, education, retail, healthcare and agribusiness.

The county's fiscal 2024 taxable assessed value (TAV) at roughly $121.5 billion reflects a 61% increase over fiscal 2021 TAV. Rapid population growth within the larger metro area will continue to drive the strong residential, commercial, retail and industrial development within the county for the foreseeable future. Wealth and income indicators exceed state and national levels.

Revenue Framework

Property tax collections represented 84% of fiscal 2022 general fund revenues followed by fees and charges for services at 15%.

The county's revenue growth is strong, with rate-adjusted, general fund revenue, compound annual growth of almost 9% for the 10-year period ending in fiscal 2022. This figure outpaces U.S. GDP and CPI by a sizable margin for the same period. As a result of ongoing and planned development and a large amount of developable land, Fitch expects strong revenue growth to continue in the near to mid-term.

Williamson County's fiscal 2024 tax rate of $0.3331 per $100 of TAV (excluding the road and bridge tax) provides ample capacity below the constitution charter cap of $0.80. Any increase in the operating tax rate that produces an annual operating levy increase of more than 3.5% (the voter approval tax rate for most local taxing units) requires a ratification election. The revenue cap does not apply to debt service tax levies; the county's fiscal 2024 debt service tax rate is $0.1339 of the total tax rate.

Expenditure Framework

Public safety comprises roughly 50% of the county's operating budget, followed by public works (roads) and judicial functions.

Fitch expects public safety and road project expenditures, the county's primary responsibilities, to track or be slightly below revenue gains, rising in line with the county's population and economic growth. Additional service demands from the expected growth are expected to fall most heavily on overlapping governmental entities such as school districts.

Williamson County maintains full control over headcount and salaries within its annual budgeting process, resulting in solid expenditure flexibility, which has been utilized during periods of economic slowdown. Fitch anticipates the county's carrying costs (about 24% of fiscal 2022 governmental spending when netting out the pass-through payment related to the Texas Department of Transportation [TxDOT]) will remain slightly elevated for the next few years, given the county's ascending debt service schedule partially offset by above-average amortization of more than 70% in 10 years and plans for additional debt issuances.

To manage the debt service tax rate and associated expense, the county has implemented a debt defeasance program. Active management of the debt portfolio and increases in TAV has enabled the county to issue new debt without increasing the tax rate.

Long-Term Liability Burden

Williamson County's long-term liability burden, including net overall debt and net pension liabilities, is a moderate 18.8% of personal income. The majority of the liability burden is attributable to overlapping jurisdictions. A small portion of debt service, or approximately 6% of the $1.4 billion in direct county debt, is reimbursed by TxDOT via a number of interlocal agreements which Fitch treats as self-supporting.

In November 2023, voters authorized an $884 million bond package to support roadway and park improvements. The series 2024 ULT road bonds mark the county's first installment of its 2023 bond referendum. The limited tax notes, which do not require voter authorization, are being issued to finance immediate infrastructure needs. The county's limited tax notes have a seven-year amortization, while the current and outstanding ULT bonds have a 20-year payout.

Management anticipates issuing the remaining authorized, but unissued debt in several installments over the next five years. While officials have not disclosed any definitive debt plans beyond the 2023 bond program, given the county's rapid growth and its great deal of developable land, it is conceivable the county will approach voters for additional bonding authority in the coming years.

The county participates in the Texas County and District Retirement System, an agent multiple-employer pension plan. The county reports a fiscal 2022 net pension liability (NPL) of $58 million, with fiduciary assets covering 90% of total pension liabilities at the plan's 8% investment return assumption. Using a more conservative 6% investment return assumption, the estimated ratio of assets to liabilities is 86%.

Operating Performance

Williamson County has a history of strong budgetary management, as demonstrated by its favorable operating performance. Fitch believes that the county maintains the highest level of financial resilience, allowing it to reasonably absorb stresses during wide-ranging economic downturns.

The county has consistently maintained a FYE general fund balance that accounts for no less than 50% of operating expenditures. The county closed fiscal 2022 with an operating surplus of roughly $8.3 million (net of transfers) and an unrestricted general fund balance of $176 million, equal to 75% of spending.

The county's budgetary practices include conservative revenue estimating, solid expenditure execution, reserve policy adherence, and consistent pay-go capital funding. The county applies up to 25% of surplus general fund revenues in excess of its unrestricted fund balance policy target of 35% of budgeted expenditures, to fund capital projects and for debt defeasance. This funding source should continue to provide a significant degree of operational flexibility during economic downturns.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Emmanuelle Lawrence
Director
Primary Rating Analyst
+1 512 215 3740
Fitch Ratings, Inc. 2600 Via Fortuna, Suite 330 Austin, TX 78746

Jose Acosta
Senior Director
Secondary Rating Analyst
+1 512 215 3726

Ashlee Gabrysch
Director
Committee Chairperson
+1 312 368 3181

Media Contacts

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Williamson County (TX) [General Government]	LT IDR	AAA	Affirmed		AAA
• Williamson County (TX) /General Obligation - Limited	LT	AAA	Affirmed		AAA

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Tax/ 1 LT				
• Williamson County (TX) /General Obligation - Unlimited Tax/ 1 LT	AAA	Affirmed		AAA

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub.04 May 2021) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Williamson County (TX)	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

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Endorsement policy