FitchRatings

Public Finance
Tax-Supported
U.S.A.

Williamson County, Texas

New Issue Summary

Sale Date: The week of April 17, 2023, via competitive sale

Series: $150,000,000 Limited Tax Notes, Series 2023

Purpose: Proceeds from the sale of the notes will be used for a juvenile justice facility renovation/expansion, right of way needs and road construction.

Security: The series 2023 notes are payable from a continuing direct annual ad valorem tax levied by Williamson County (the county), within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the notes.

The 'AAA' Long-Term Issuer Default Rating (IDR) and unlimited tax (ULT) and limited tax (LT) bond and note ratings are based on the county's superior operating profile, including expectations for continued strong revenue growth prospects and a moderate long-term liability burden. The ratings also reflect the county's solid expenditure flexibility and ample reserves, positioning it well to withstand future economic downturns.

Economic Resource Base: Williamson County occupies 1,104 square miles in central Texas with a 2021 population of approximately 643,000, a 52% increase from the 2010 census amount. The county, a component of the Austin-Round Rock-Georgetown, Texas metropolitan area, is situated just north of Austin along the heavily traversed I-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 Ratings expects the county's pace of spending to remain below its healthy revenue trends given its limited responsibilities as prescribed by the Texas constitution. Expenditure flexibility is derived from the county's ability to control labor costs and annual pay-as-you-go capital spending that could be redirected if necessary. 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.

Long-Term Liability Burden: 'aa': Fitch adjusted net pension liabilities (NPLs) plus direct and overlapping debt represent 18% of personal income, a level at the high end of the range for a 'aa' assessment. Overlapping debt represents a large percentage (82%) 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 to issue additional debt and increases in overlapping debt due to ongoing population growth.

Operating Performance: 'aaa': The county's financial flexibility is bolstered by ample reserves and a pay-as-you-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.

FACT Tools

Ratings

Long-Term Issuer Default Rating	AAA

New Issue

$150,000,000 Limited Tax Notes, Series 2023	AAA

Outstanding Debt

Combination Tax and Revenue Certificates of Obligation	AAA
Limited Tax Notes	AAA
Limited Tax Refunding and Park Bonds	AAA
Limited Tax Refunding Bonds	AAA
Limited Tax Refunding Bonds (Taxable)	AAA
Limited Tax Park Bonds	AAA
Unlimited Tax Road Bonds	AAA
Pass-Through Toll Revenue and Limited Tax Bonds	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Williamson County, TX's $150MM Limited Tax Notes 'AAA'; Outlook Stable (March 2023)

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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, thereby impacting overall expenditure flexibility.
- A rise in the county's long-term liability burden sustained at closer to or above 20% of personal income levels.
- Economic contraction that triggers sustained and deep revenue declines and materially erodes the county's gap-closing capacity to a level inconsistent with the current financial resilience assessment.

Current Developments

Fiscal 2022 general fund revenues were up 6% over fiscal 2021 and, inclusive of over $30 million in transfers out for capital, the unrestricted general fund balance increased by $9 million to $176 million (75% of expenses and transfers out). Expenditures came in at $25 million under budget in part because some capital projects were rolled to fiscal 2023. Revenues have continued to come in above budget due to conservative assumptions and continuous strong growth in the tax base.

The fiscal 2023 general fund budget is up 11% over the prior year's budget, to $282 million, and is supported by an increase in property taxes following tax base growth related to continued economic expansion. The fiscal 2023 budget includes a planned use of about $14 million in fund balance to fund the county's capital improvement program. Fitch expects the county to maintain healthy reserves as it manages growth-related increases in service needs and capital projects.

Credit Profile

Williamson County is one of the fastest growing counties in Texas, growing 52% in population since 2010. Williamson County's growth has been fueled by its location along the I-35 corridor and close access to Austin, Texas. Growth in the technology sector is a primary driver of employment in the region. Williamson County's other economic anchors include manufacturing, government, education, retail, healthcare and agribusiness.

Net taxable assessed values (TAVs), which are about 60% residential, continue to grow at a solid pace, with a 10-year CAGR at around 12% through fiscal 2023. TAV grew 24% in fiscal 2023 yoy and is projected to grow by 15% in fiscal 2024. Continued residential and commercial growth is expected to keep the trend of economic expansion going. The employment base is anchored by an abundance of high technology firms, including the corporate headquarters of Dell, Inc., an Apple Inc. campus and a planned SpaceX facility. Unemployment levels have historically tracked below those of the state and U.S., and wealth levels are comfortably above such levels.

Revenue Framework

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

The 10-year CAGR through fiscal YE22 for general fund revenues of over 6% has handily exceeded both inflation and GDP. With ongoing and planned development in the county and a vibrant local economy coupled with a large amount of developable land, Fitch expects revenue growth to continue at a similar pace in the near to mid-term.

The county's fiscal 2023 total ad valorem tax rate of $0.3381 per $100 of TAV (excluding the road and bridge tax) provides ample capacity below the statutory tax rate 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 2023 debt service tax rate is $0.1339 out of the total rate.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/30/23
AAA	Affirmed	Stable	11/7/11
AAA	Assigned	—	3/16/11

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 expected growth are expected to fall most heavily upon 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 22% of fiscal 2022 governmental spending when netting out the $12.3 million pass-through payment related to the Texas Department of Transportation) will remain slightly elevated for the next few years given the county's ascending debt service schedule, which is partially offset by above average amortization of nearly 73% in 10 years, and potential plans for additional borrowing.

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 have enabled the county to issue new debt without increasing the tax rate.

Long-Term Liability Burden

Inclusive of this issuance, Williamson County's long-term liability burden represents a moderate 18% of residents' 2021 personal income. Fitch expects the county's long-term liability burden to remain at the high end of the moderate range, as population and income growth are likely to be aligned with the county's and overlapping governmental entities' additional debt needs. About 82% of the total liability burden comprises overlapping debt, mostly driven by the county's 16 school districts.

A small portion of debt service, or about 8% of the approximately $1.165 billion in direct county debt, is reimbursed by the Texas Department of Transportation via a number of interlocal agreements that Fitch treats as self-supporting.

The county participates in the Texas County and District Retirement System (TCDRS), an agent multiple-employer pension plan. The county reports a fiscal 2022 NPL of $58 million, with fiduciary assets covering 90% of total pension liabilities at the plan's 8% investment return assumption (approximately 72% based on Fitch's standard 6% investment rate assumption).

Operating Performance

The county has had general fund net surplus operations for several years, and it completed fiscal 2022 with unrestricted general fund reserves of $176 million (75% of spending). The county plans on using reserves to complete capital projects and for additional capital plans, including the long-term transportation plan; however, reserve levels are expected to remain well above its policy floor of at least 35% of expenditures.

Williamson County's strong budgetary practices include conservative revenue estimating, solid expenditure execution, reserve policy adherence and consistent pay-as-you-go capital funding. The county generally does not defer required spending.

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.

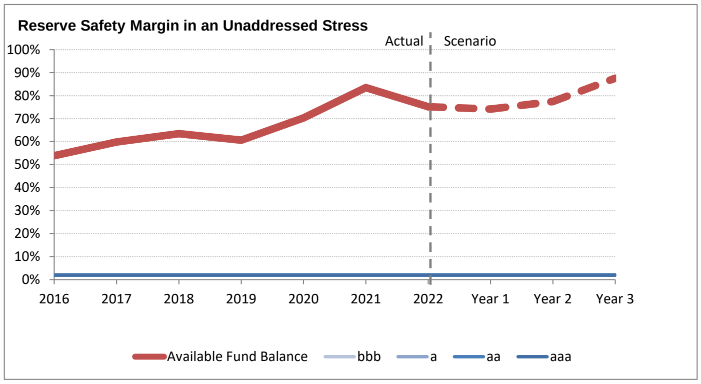
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Williamson County (TX)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

Fitch anticipates Williamson County will demonstrate continued strong operating performance and gap closing ability during future economic downturns based on its revenue raising capability, solid expenditure flexibility and superior reserve levels.

Scenario Parameters:			Year 1	Year 2	Year 3
GDP Assumption (% Change)			(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)			2.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* -1%	*Case Used:* **Moderate**	(1.0%)	6.3%	8.7%
Inherent Budget Flexibility				Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2016	2017	2018	2019	2020	2021	2022	Year 1	Year 2	Year 3
Total Revenues	163,023	176,147	187,172	202,894	215,295	228,105	242,057	239,636	254,749	277,018
% Change in Revenues	-	8.0%	6.3%	8.4%	6.1%	5.9%	6.1%	(1.0%)	6.3%	8.7%
Total Expenditures	148,118	157,456	166,115	182,678	182,648	183,757	203,794	207,869	212,027	216,267
% Change in Expenditures	-	6.3%	5.5%	10.0%	(0.0%)	0.6%	10.9%	2.0%	2.0%	2.0%
Transfers In and Other Sources	250	1,466	4,829	612	349	900	476	471	501	545
Transfers Out and Other Uses	11,681	6,994	11,512	14,273	14,134	16,440	30,478	31,087	31,709	32,343
Net Transfers	(11,432)	(5,527)	(6,682)	(13,661)	(13,785)	(15,541)	(30,002)	(30,616)	(31,208)	(31,798)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	3,474	13,163	14,375	6,556	18,863	28,807	8,262	1,151	11,514	28,952
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	2.2%	8.0%	8.1%	3.3%	9.6%	14.4%	3.5%	0.5%	4.7%	11.6%
Unrestricted/Unreserved Fund Balance (General Fund)	86,120	98,415	112,777	119,435	138,352	167,188	176,066	177,217	188,731	217,683
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	86,120	98,415	112,777	119,435	138,352	167,188	176,066	177,217	188,731	217,683
Combined Available Fund Bal. (% of Expend. and Transfers Out)	53.9%	59.8%	63.5%	60.6%	70.3%	83.5%	75.2%	74.2%	77.4%	87.6%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.