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Ratings

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Summary:

Williamson County, Texas; General Obligation

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Summary:

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Credit Profile		
US$167.0 mil ltd tax nts ser 2024 dtd 04/01/2024 due 02/15/2044		
Long Term Rating	AAA/Stable	New
US$160.0 mil unltd tax rd bnds ser 2024 dtd 04/01/2024 due 02/15/2044		
Long Term Rating	AAA/Stable	New
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Williamson County, Texas' roughly $160 million series 2024 unlimited-tax general obligation (GO) road bonds and roughly $167 million series 2024 limited-tax GO notes.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the county's existing GO debt.
- The outlook is stable.

Security

The county's series 2024 and unlimited-tax road bonds outstanding are payable from the receipts of a direct and continuing annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the county.

The series 2024 notes and the county's limited-tax bonds; notes; and certificates of obligation outstanding are a direct obligation of the county, payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the county. Texas statutes limit the maximum ad valorem tax rate for counties to 80 cents per $100 of taxable assessed valuation for all county purposes. Administratively, the Texas attorney general will permit the allocation of 40 cents of the maximum tax rate for ad valorem tax debt service. Despite limitations imposed by the state levy-limit law, we did not make a rating distinction for the limited-tax GO pledge due to the fungibility of the county's revenue and flexibility under the levy limit.

Certificates outstanding are additionally secured by, and payable from, a limited pledge of county landfill surplus revenue, not to exceed $1,000. Because of the pledge's limited nature, the rating reflects the strength of the ad valorem-tax pledge.

A first lien on pledged revenue additionally secures the county's series 2013 pass-through toll revenue and limited-tax bonds.

Officials intend to use series 2024 bond and note proceeds to finance road construction and improvements and right-of-way needs countywide.

Credit overview

The county is one of the nation's fastest-growing counties, benefiting from rapid growth and development occurring in and around the Austin-Round Rock metropolitan statistical area (MSA). Recent property tax base growth has been substantial due to continuous ongoing development across many sectors, particularly technology with Dell, Amazon, and IBM Corp. present.

The county has a history of positive operations, bolstered by growth and illustrated by year-over-year property tax gains. It maintains a healthy fund balance to mitigate any unknowns. However, officials expect drawdowns for capital during the next few fiscal years; they also remain committed to the fund-balance policy of maintaining 35% of operating expenditures.

The debt profile is weak, accommodating growth-based capital needs; however, it continues to use a debt-defeasance program, somewhat offsetting new issuances, which we view positively. The county overfunded its pension in fiscal 2022, resulting in a pension asset, which we consider another credit positive.

The rating reflects our opinion of the county's:

- Robust, rapidly growing economy with ongoing developments, bolstered by access to the broad, diverse MSA;
- Very strong management with strong financial-management policies, practices under our Financial Management Assessment (FMA) methodology and strong Institutional Framework score;
- Historically strong operating performance with another surplus expected in fiscal 2023, according to its budget-to-actual report, coupled with the maintenance of very strong reserves in excess of its formal fund-balance policy of maintaining 35% of general fund expenditures--However, it expects to spend down for capital; and
- Weak debt profile with annual issuances expected, albeit with rapid amortization and a debt-defeasance program, coupled with an overfunded pension.

Environmental, social, and governance

We view the county's environmental, social, and governance (ESG) factors as neutral in our credit-rating analysis. We think the county's population growth of close to 40% during the past 10 years indicates a demographic trend that we consider a social opportunity because service costs are spread across a larger base and could help with the maintenance of long-term affordability.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the county's continued economic expansion, which we think will likely lead to continued multiyear positive operating performance and the maintenance of very strong reserves, as well as prudent financial management with key policies and practices that will likely provide stability when faced with evolving macroeconomic conditions.

Downside scenario

We could lower the rating if budgetary performance were to become imbalanced, either due to increased fixed costs from high debt or sustained operating deficits, leading to a significant fund balance drawdown beyond the county's formal reserve policy.

Credit Opinion

Tremendous, ongoing tax base growth, benefiting from access to the MSA

Tax base growth, up by 16% in one year and 71% in five years to $122 billion in fiscal 2024, makes it one of the state's and nation's fast-growing tax bases recently. The county is 12 miles north of downtown Austin, benefiting from direct access to major transportation corridors, large metropolitan areas, and employment centers as part of the Austin-Round Rock MSA.

The technology sector is thriving. Most recently, Samsung is building a new $17 billion semiconductor factory that could be operational by the end of 2024. Other notable expansions include:

- A $165 million expansion of Austin-Bergstrom International Airport,
- The construction of two new hospitals, and
- A new Amazon distribution center.

The county is experiencing growth in health care, retail, restaurants, distribution, and solar industries. Residential development remains strong, with many single-family and multifamily developments. We expect Williamson County's economy to remain very strong in the medium term.

Very strong management with strong financial-management policies, practices

Highlights include management's:

- Annual budget, which includes revenue and expenditures based on a thorough and conservative trend analysis, coupled with using demographers to predict growth trends and monthly fiscal presentations to the commissioner's court that track revenue, expenditures, and investment performance;
- Capital-improvement plan, including a list of projects it updates annually and, if not completed, rolls forward, with one-fifth of fund balance over formal policy allocated as the funding source;
- Long-term financial model that forecasts revenue and expenditures;
- Formal debt-management policy that extends beyond state guidelines and provides county officials with guidelines to closely evaluate and monitor debt issuance; and
- Formal fund-balance policy that establishes a reserve at 35% of operating general fund expenditures.

The Institutional Framework score for Texas counties is strong.

A history of positive operating performance, maintenance of very strong reserves, with an expected spend down for capital

The county has a history of operating surpluses in the general and total governmental funds, underpinned by adhering to strong financial-management practices, including conservative budgeting. Positive variances in recent years are also attributed to year-over-year increasing property taxes, which generate the majority of general fund revenue (82%) and were up by 14% in three fiscal years. Officials expect this trend to continue, commensurate with growth. Vacant positions have also contributed to surpluses, but officials have begun to address retention and hiring with salary increases.

We do not currently expect this to create an imbalanced budget because officials are projecting revenue to outpace expected salary increases during the next few fiscal years. Fiscal 2023 budget-to-actual results show a nearly $27 million general fund operating surplus.

Beginning in fiscal 2024, the county plans to spend down roughly $15 million-$17 million annually of fund balance for capital projects for the next several fiscal years; however, officials remain committed to the formal reserve policy of maintaining 35% of operating expenditures, which does not greatly affect our view of the county's strong finances because the capable management team has historically demonstrated prudence in its ability to manage the budget.

The county has approximately $17 million of privately placed debt, or 1.2% of direct debt. However, we do not consider this a contingent-liability risk because debt does not contain any nonstandard events of default, cross-default provisions, or acceleration clauses. The county has historically had, what we consider, very strong cash balances.

A weak debt profile, precipitated by growth but partially mitigated by a debt-defeasance program and fairly rapid amortization

We consider debt elevated. However, we note new issuances have been offset partially by market value growth and have not pressured the budget. A credit positive is the county's implementation of a debt-defeasance program, where the county has defeased $176.56 million of debt since the program's inception and budgeted for $20 million to defease in fiscal 2024. As growth continues, we expect frequent issuances; however, we expect costs will likely remain manageable with the continuance of debt defeasance, market value growth, and fairly rapid amortization.

Pension and other postemployment benefits (OPEB)

We do not view pension and OPEB liabilities as an immediate credit pressure because required contributions account for a small portion of total governmental expenditures. We do not expect required contributions to increase materially during the next few fiscal years due to the county's favorable funding discipline.

As of Dec. 31, 2021, the latest measurement date, the county participates in Texas County & District Retirement System, a nontraditional, defined-benefit pension plan that provides retirement, disability, and death benefits for all full-time employees that is 102.5% funded, with a net pension asset equal to $15.2 million. Contributions are actuarially determined, and the county has consistently contributed in excess of annual required costs. Plan contributions exceeded our actual and minimum-funding progress guidelines. Actuarial assumptions include a 7.6% discount, which we view as aggressive, coupled with a closed amortization period.

Williamson County provides certain health-care benefits through a single-employer, defined-benefit OPEB plan for all full-time employees that meet eligibility requirements. The county's net OPEB liability was $55.6 million as of Sept. 30, 2022.

Ratings above the sovereign

Williamson County's GO debt is eligible to be rated above the sovereign because we think the county can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, we consider U.S. local governments to have moderate sensitivity to national risk.

The county's GO pledge is the primary source of debt security, severely limiting the possibility of negative sovereign intervention in the payment of debt or operations. The nation's institutional framework for local governments is predictable, allowing it significant autonomy and independent treasury management, with no history of government intervention. Williamson County also has considerable financial flexibility, demonstrated by its very strong general fund balance as a percent of expenditures, as well as very strong liquidity.

Williamson County, Texas--key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	130.9			
Market value per capita ($)	189,584			
Population		642,002	613,104	585,379
County unemployment rate(%)		2.9		
Market value ($000)	121,495,892	84,913,236	75,366,442	70,875,566
10 leading taxpayers as a % of taxable value	2.5			
Strong budgetary performance				
Operating fund result as a % of expenditures		3.4	14.0	9.5
Total governmental fund result as a % of expenditures		2.7	17.7	8.5
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		57.8	65.3	54.0
Total available reserves ($000)		135,159	130,660	106,277
Very strong liquidity				
Total government cash % of governmental fund expenditures		98.6	110.5	80.5
Total government cash % of governmental fund debt service		377.9	443.2	358.1
Very strong management				
Financial Management Assessment	Strong			
Weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		26.1	24.9	22.5
Net direct debt as a % of governmental fund revenue	285.4			
Overall net debt as a % of market value	7.0			
Direct debt 10-year amortization (%)	74.8			
Required pension contribution as a % of governmental fund expenditures		3.4		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0.4		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 6, 2024)		
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.