S&P Global Ratings

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Summary:

Williamson County, Texas; General Obligation

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Summary:

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Credit Profile		
US$112.0 mil unltd tax rd bnds ser 2022 dtd 07/20/2022 due 02/15/2042		
Long Term Rating	AAA/Stable	New
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Williamson County, Texas' roughly $112 million series 2022 unlimited-tax general obligation (GO) road bonds and affirmed its 'AAA' rating, with a stable outlook, on the county's existing GO debt.

The unlimited-tax road bonds 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 county's outstanding limited-tax bonds and notes and certificates of obligation constitute 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 (AV) 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 the 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 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 2013 pass-through toll revenue and limited-tax bonds.

Williamson County's bonds are 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, U.S. local governments are considered to have moderate sensitivity to country risk. The county's GO pledge is the primary source of security on the debt, which severely limits the possibility of negative sovereign intervention in the repayment of debt or county operations. The Institutional Framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. The county has considerable financial flexibility, in our opinion, demonstrated by very high fund general balance as a percent of expenditures and very strong liquidity. The county has a predominantly locally derived revenue base with more than 82% of general fund revenue from property taxes, with independent taxing authority. In our view, pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention.

Officials intend to use series 2022 bond proceeds to finance road improvements countywide.

Postissuance, the county will have approximately $1.23 billion of direct debt outstanding.

Credit overview

Williamson County benefits from rapid growth and development occurring in and around the Austin-Round Rock metropolitan statistical area (MSA). The county has experienced solid taxable value gains; we expect property tax, the primary revenue stream, growth to continue. The county historically outperforms the reserve policy; we expect it will likely maintain healthy fund balance to handle unknowns, even with planned drawdowns to cash-fund capital projects. The county's debt profile is elevated; however, fairly rapid amortization and management's commitment to debt defeasance have helped mitigate long-term debt-service costs.

The rating reflects our assessment of the county's:

- Very strong economy with access to a broad, diverse MSA and continuous residential and commercial developments leading to strong property tax base increases;
- Very strong management with strong financial-management policies and practices under our Financial Management Assessment (FMA) methodology--indicating financial practices are strong, well embedded, and likely sustainable--and a strong Institutional Framework;
- Year-over-year general fund surpluses and very strong reserves courtesy of conservative budgeting and property tax revenue exceeding expectations; and
- Weak debt profile, partially mitigated by a debt-defeasance program and fairly rapid amortization.

Environmental, social, and governance

The rating incorporates our view of environmental, social, and governance (ESG) risks relative to Williamson County's economy, management, financial measures, and debt-and-liability profile; we have determined all are neutral in our analysis.

Stable Outlook

Downside scenario

We could lower the rating if budgetary performance or flexibility were to weaken or if significant debt issuance, not offset by market value growth, were to result in significant fixed-cost pressure.

Credit Opinion

A fast-growing local economy, benefitting from access to the Austin-Round Rock MSA

Williamson County, about 12 miles north of downtown, benefits from close access to major transportation corridors, large metropolitan areas, and employment centers as part of the Austin-Round Rock MSA; the technology industry's expansion is evidence with Dell, Amazon, Apple, IBM Corp., and Tesla all leading employers in Austin. The county continues to grow and develop as expansion from the Austin area moves further north.

Market value growth continues, which makes the county one of the state's and nation's fastest-growing counties. AV grew to $85 billion, almost by 13%, from fiscal years 2021-2022 and by 44% during the past five fiscal years. The county's 10 leading taxpayers are diverse, making up a modest 2.8% of AV, including several energy providers, office buildings, shopping malls, and Dell Computer Holdings L.P. (the leading taxpayer).

The county continues to experience growth in various sectors. Housing values continue to increase because residential demand is strong. There are numerous offices, restaurants, retail, apartment complexes, and hotels planned or newly opened. Apple has expanded its campus in the county, which is now three million square feet; it will employ up to 15,000. Due to continuous development and all future plans already underway, we do not expect the county's economy to slow down during the next few years.

Very strong management with strong financial-management policies, practices

Highlights include management's:

- Annual budget that includes revenue and expenditures based on a thorough and conservative trend analysis, coupled with using demographers to predict growth trends;
- Monthly fiscal presentations to the commissioner's court that track revenue, expenditures, and investment performance;
- Five-year capital-improvement plan (CIP) adopted annually;
- Long-term financial model in place 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.

We note the county takes measures to mitigate cybersecurity risk. We think the county has strong budgeting and investment-management policies and reporting practices it will likely sustain.

Multiyear general fund surpluses, leading to very strong reserves

Williamson County maintains historically stable finances, bolstered by strong financial-management practices. Higher revenue and property tax collections, due to a strong housing market and economic expansion, support increasing reserves and general financial stability. Our assessment of operating performance includes adjustments for recurring interfund transfers and expenditure adjustments to reflect debt-funded capital expenditures. In fiscal 2021, property taxes generate approximately 82% of general fund revenue. Revenue came in almost $7 million overbudget, and property taxes outperformed budgeted projections by $5.4 million. The county had expenditure savings due to some capital-improvement projects being delayed because of supply chain issues due to COVID-19 and the difficulty in filling employee vacancies due to COVID-19 and low area unemployment.

The fiscal 2022, $454 million budget is a 15% increase over fiscal 2021, including salary increases, a new emergency-medical-services station, merit increases for civilian positions, and increased revenue to account for property tax growth. At this point in fiscal 2022, the county is tracking the budget well; it expects to end the fiscal year with a surplus. The fiscal 2023 budget process is underway, including the addition of two new courts and staff to increase an emergency-medical-services station to 24 hours.

The county has received $57 million from the American Rescue Plan Act of 2021, and it expects another $57 million. The county will use funds for water-and-wastewater projects, law enforcement and first responders, mental health and health-care needs, and court backlog projects.

The county has maintained very strong reserves in excess of its formal 35% reserve policy. The county will spend down reserves, in accordance with the CIP to cash-fund certain capital projects. Despite drawdowns, due to management's ability to produce reliably strong surpluses, we expect fund balance will likely remain very strong.

The county has approximately $49.9 million in privately placed 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; due to management's demonstrated ability to maintain balanced operations, we do not think cash will likely deteriorate.

Weak, but manageable, debt, positively affected by debt defeasance

We consider debt elevated. However, market value growth has regularly outpaced new debt issuance recently. Overall, net debt represents only 7.4% of fiscal 2022 market value. To help manage high debt, the county has implemented a debt-defeasance program; it does not expect increases in the debt-service-tax levy in association with the new issue. The county has defeased $122.9 million in debt since the program's implementation, and it has budgeted to defease another $25 million in fiscal 2022 and $20 million annually in fiscal years 2023-2025. The county expects a possible debt election in fiscal years 2023 or 2024 for road improvements. We expect additional bonding to be manageable, considering market value growth, debt defeasance, and fairly rapid amortization.

Pension and 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. 30, 2020, the county participated in the statewide Texas County & District Retirement System, a nontraditional, defined-benefit pension plan that provides retirement, disability, and death benefits for all full-time employees. The plan is 90% funded with a net pension liability equal to $58.2 million. Contributions are actuarially determined, and the county has consistently contributed in excess of annual required costs. Plan contributions exceeded our minimum-funding-progress guideline, indicating progress made toward reducing the long-term liability. Actuarial assumptions include a 7.6% discount, which we view as aggressive, and a closed amortization period.

The county provides certain health-care benefits through a single-employer, defined-benefit OPEB plan for all full-time employees who meet eligibility requirements. The county's net OPEB liability was $61 million as of Sept. 30, 2021.

Strong Institutional Framework

The Institutional Framework score for Texas counties is strong.

Williamson County, Texas Select Key Credit Metrics				
	Most recent	**--Historical information--**		
		2021	**2020**	**2019**
Very strong economy				
Projected per capita effective buying income as a % of U.S.	135.5			
Market value per capita ($)	145,198			
Population			585,379	565,129
County unemployment rate(%)		4.0		
Market value ($000)	84,996,144	75,366,442	70,875,655	
10 leading taxpayers as a % of taxable value	2.8			
Strong budgetary performance				
Operating fund result as a % of expenditures		14.0	9.5	5.9
Total governmental fund result as a % of expenditures		17.7	8.5	(1.6)
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		65.3	54.0	47.5
Total available reserves ($000)		130,660	106,277	91,172
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		110.5	80.5	68.5
Total government cash as a % of governmental fund debt service		355.2	358.1	248.0
Very strong management				
Financial Management Assessment	Strong			
Weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		31.1	22.5	27.6
Net direct debt as a % of governmental fund revenue	260.5			
Overall net debt as a % of market value	7.4			
Direct debt 10-year amortization (%)	69.2			
Required pension contribution as a % of governmental fund expenditures		4.3		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0.5		
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
- 2021 Update Of Institutional Framework For U.S. Local Governments

- 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 June 16, 2022)		
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