

FITCH RATES WILLIAMSON COUNTY, TX'S GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-Austin-03 June 2016: Fitch Ratings has assigned a 'AAA' rating to the following Williamson County, Texas obligations:

- \$20 million limited tax park bonds, series 2016;
- \$39.64 million limited tax refunding bonds, series 2016.

The limited tax park bonds are scheduled for competitive sale on June 8th. Proceeds will be used to fund park projects. The limited tax refunding bonds are scheduled for sale the week of June 27th. Proceeds from the refunding bonds will be used to refund outstanding obligations for debt service savings.

In addition, Fitch has affirmed the following county ratings:

- Long-Term Issuer Default Rating (IDR) at 'AAA';
- \$283 million unlimited tax obligations at 'AAA';
- \$641 million (pre-refunding basis) limited tax obligations at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The unlimited tax bonds are payable from an unlimited ad valorem tax levied against all taxable property in the county. The limited tax obligations are payable from the county's \$0.80 constitutional ad valorem tax rate. The certificates are payable from the \$0.80 tax rate and a limited pledge of surplus revenues from the county's landfill operations.

The outstanding pass-through toll revenue and limited tax bonds are payable from payments received by the county pursuant to a pass-through toll agreement between the county and the Texas Department of Transportation (TxDoT), and additionally from the county's \$0.80 ad valorem tax rate.

KEY RATING DRIVERS

The 'AAA' Long-Term IDR and general obligation ratings are based on the county's exceptional operating profile, encompassing its revenue-raising capacity, expenditure flexibility and solid reserve levels.

Economic Resource Base

Williamson County occupies a sizable 1,135 acres in central Texas with a 2016 population of 527,669, double that of 15 years ago. The county lies just north of Austin along the well-traversed I-35.

Revenue Framework: 'aaa' factor assessment

Expansion throughout the Austin-Round Rock Metropolitan Statistical Area (MSA) has driven strong revenue growth in Williamson County over the past decade. Growth prospects remain positive and the county retains ample ad valorem tax rate capacity below constitutional limits.

Expenditure Framework: 'aa' factor assessment

Fitch anticipates the county's pace of spending to remain below its healthy revenue trends given its limited role as prescribed by the Texas constitution. Expenditure flexibility is derived from the county's ability to fully control labor costs. Currently elevated carrying costs, 26% of governmental spending, are expected to taper down over the next five years based on principal amortization that outpaces the county's modest new issuance plans.

Long-Term Liability Burden: 'aa' factor assessment

Fitch does not expect a near-term reduction in the county's long-term liability burden, currently on the high end of moderate, given the potential for ongoing growth of overlapping debt.

Operating Performance: 'aaa' factor assessment

The county's financial flexibility is characterized by healthy reserve levels and a pay-as-you-go capital program systematically funded from reserves in excess of the policy target. Fitch expects that the county would demonstrate strong financial resilience in a moderate economic downturn based on its solid reserves, revenue-raising capacity, expenditure flexibility and budgetary discipline.

RATING SENSITIVITIES

Manageable Carrying Costs: The 'AAA' rating is sensitive to the county's ability to maintain affordable carrying costs in the midst of ongoing regional growth.

CREDIT PROFILE

Williamson County's economic activity includes technology, manufacturing, government, education, retail, and agribusiness. The county benefits from an abundance of high technology firms, including the corporate headquarters of Dell Computer. A diversified employment base and the stabilizing influence of education, government, and healthcare among top employers make the county less susceptible to technology cycle downturns. Strong employment growth lessens the impact of structural layoffs common to the competitive technology sector.

The county continues to see new business entrants and expansion in the commercial, retail, manufacturing, medical and education sectors. IHS Economics expects regional job growth and personal income to outstrip that of the U.S. over the medium term with the greatest growth in the business services and construction sectors.

Revenue Framework

Williamson County operating revenues, provided primarily from ad valorem property taxes, have increased at a healthy pace over the past 10 years, due primarily to the impact of population-driven tax base gains.

The county's tax base, about 60% residential, grew by 7.9% on average over the past four years and an even stronger 9.5% in fiscal 2016. Fitch believes the residential tax base faces some local housing market risk in the event of an economic downturn as reflected in Fitch's assessment of 10%-15% home price overvaluation in Texas. For more information see Fitch's U.S. RMBS Sustainable Home Price Report (First-Quarter 2016 Update) - Amended, May 26, 2016. Extensive new development and business expansion, planned and underway, bode well for ongoing tax base growth through the medium term.

Williamson County's fiscal 2016 ad valorem tax rate of \$0.4577 per \$100 of TAV provides ample capacity below the constitutional cap of \$.80. If a proposed tax rate results in an 8% year-over-year levy increase (based on the prior year's values), the rate increase may be subject to election if petitioned by voters.

Expenditure Framework

Public safety comprises 57% of the county's operating budget, followed by public works (roads) and judicial functions, all as prescribed by the Texas constitution.

An expectation of moderate expenditure growth is based on the county's limited role, as well as joint funding of road projects among member cities and the state.

Williamson County maintains full control over headcount and salaries within its annual budgeting process, resulting in sizable expenditure flexibility which has been tapped during periods of economic slow-down. Fitch anticipates the county's elevated carrying costs (representing 26% of fiscal 2015 governmental spending) to decline over the next five years as principal amortization exceeds planned issuances.

Long-Term Liability Burden

Williamson County's long-term liability burden represents a moderate 20% of its residents' 2016 personal income, down from 22% based on fiscal 2014 per capita income and population. Fitch does not anticipate a reduction in the county's long-term liability burden over the medium term based on the likelihood of ongoing overlapping debt issuance.

Williamson County received strong support from voters in November 2013 for \$275 million in unlimited tax road bonds and \$40 million in limited tax bonds for parks and recreation development and improvements. This issuance will exhaust the limited tax authorization. The county anticipates issuing the remaining \$75 million of ULT road bonds in fiscal 2017; management reports no further borrowing plans currently.

The county participates in the Texas County and District Retirement System (TCDRS), an agent multiple-employer pension plan. Under GASB 67 and 68, the county reports a fiscal 2015 net pension liability (NPL) of \$26.2 million, with fiduciary assets covering 92.2% of total pension liabilities at the plan's 8.1% investment return assumption (approximately 82.3% based on a lower 7% investment rate assumption).

Operating Performance

Fitch anticipates Williamson County to demonstrate continued strong operating performance and gap closing ability during a moderate economic downturn based on its revenue raising capacity, expenditure flexibility and strong reserve levels. The county completed fiscal 2015 with unrestricted reserves of \$82.6 million (56.7% of spending).

The county applies up to 25% of surplus general funds in excess of its unrestricted fund balance policy target (35% of budgeted expenditures) to fund capital projects and for debt defeasance. Officials anticipate this funding source to generate up to \$8 million annually for capital projects and retire debt while continuing to maintain healthy reserve levels. These monies also increase the county's operational flexibility if needed for ongoing expenditures.

Williamson County's strong budget discipline is demonstrated by its reserve policy and systematic pay-as-you-go capital program. The county generally funds its pension obligations at the actuarially required level and does not defer spending.

Contact:

Primary Analyst
Rebecca Meyer
Director
+1-512-215-3733
Fitch Ratings, Inc.
111 Congress Avenue

Austin, TX 78701

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

Committee Chairperson
Steve Murray
Senior Director
+1-512-215-3729

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

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

Applicable Criteria

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '[WWW.FITCHRATINGS.COM](http://www.fitchratings.com)'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.