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$75.0 mil unltd tax rd bnds ser 2017 dtd 12/06/2017 due 02/15/2042		
Long Term Rating	AAA/Stable	New
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AAA' long-term rating to Williamson County, Texas' series 2017 unlimited tax road bonds. At the same time, we affirmed our 'AAA' long-term rating and underlying rating (SPUR) on the county's previously issued general obligation (GO) debt. The outlook on all ratings is stable.

The bonds are direct obligations of the county payable from revenue from an annual ad valorem tax levied against all taxable property in the county, within the limits prescribed by law. 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. In fiscal 2017, the county is levying 42.65 cents, with 16.75 cents dedicated to debt service and the remainder to operations. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge, given the county's flexibility under the levy limit. We believe Williamson County possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax GO bonds. Bond proceeds will finance street and road improvements in the county.

The county's previously issued certificates of obligation and pass-through toll revenue and limited tax bonds are secured by its direct and continuing ad valorem pledge, as well as a limited pledge of surplus revenues the county receives from the operation of its landfill and tollways, respectively. However, we rate the obligations based on the county's GO pledge, which we view as the stronger pledge.

Williamson County's GO bonds are eligible to be rated above the sovereign, because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, 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 payment of the debt or in the operations of the county. 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. Williamson County has considerable financial flexibility, in our opinion, as demonstrated by its very high fund general balance as a percent of expenditures, as well as its very strong liquidity. In addition, the county has a predominantly locally derived revenue base, with more than 80% of general fund revenue derived from property taxes with independent taxing authority; and, in our view, pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention.

The 'AAA' ratings reflect our opinion of Williamson County's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 56% of operating expenditures;
- Very strong liquidity, with total government available cash at 68.8% of total governmental fund expenditures and 2.1x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 32.5% of expenditures and net direct debt that is 330.5% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Williamson County, with an estimated population of 508,607, is located in the Austin-Round Rock, TX MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 129% of the national level and per capita market value of $111,902. Overall, the county's market value grew by 11.9% over the past year to $56.9 billion in 2018. The county unemployment rate was 3.3% in 2016.

Spanning an area of approximately 1,104 square miles in central Texas, Williamson County is located roughly 12 miles north of downtown Austin and 130 miles south of the Dallas-Fort Worth metroplex, with the city of Georgetown serving as county seat. County residents benefit from close proximity to Interstate 35, which transverses the center of the county and provides access to large metropolitan areas to the north and south, allowing residents to commute throughout the Austin-Round Rock MSA for employment opportunities. While the local economy has historically been rooted in agribusiness, manufacturing, and education, rapid economic and geographical expansion in the greater Austin area has contributed to a similar phenomenon in the county, and a strengthening of retail, higher-education, and health-care sector presence. Principal county employers in fiscal 2016 were Dell Computer (with 14,000 employees), Round Rock Independent School District (5,800), Leander Independent School District (4,823), and the county itself (1,646).

Inextricably related to recent economic growth trends, Williamson County's population and AV have grown significantly over the past several years, which management attributes to low tax rates, affordable housing, and effective business incentives. Officials expect AV growth to remain strong over the next two years, with preliminary figures for fiscal 2018 projecting AV to increase by at least 11% from fiscal 2017 levels, and increase by at least 10% in fiscal 2019. According to officials, an array of businesses are pursuing the initiation or expansion of operations in the county, with a number of commercial projects in varying stages of planning and development. In addition, residential development is expected to remain strong, with officials anticipating the construction of at least 6,600 new homes in fiscal 2019. As such, we expect Williamson County's economy to remain very strong in the near term.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Williamson County completes an annual budget that includes revenue and expenditures based on a thorough and conservative trend analysis and utilize outside demographers to predict growth trends. Management provides monthly fiscal presentations to the Commissioner's Court that track revenue, expenditures, and investment performance. The county annually adopts a five-year capital improvement program, with funding identified annually. It also has a long-term financial model in place that forecasts future revenues and expenditures. A formal debt management policy that extends beyond state guidelines has been adopted that provides county officials with guidelines to closely evaluate and monitor debt issuances. The county also maintains a formal fund balance policy that establishes a reserve of 35% of operating general fund expenditures. We believe the county has strong budgeting and investment policies and reporting practices.

Strong budgetary performance

Williamson County's budgetary performance is strong in our opinion. The county had operating surpluses of 2.9% of expenditures in the general fund and of 2.2% across all governmental funds in fiscal 2016.

Our calculations include adjustments for nonrecurring expenditures such as the spending down of bond proceeds and other large one-time items. Net of those adjustments, the county's financial performance has been stable and the county has demonstrated a trend of operational balance. General fund revenues are derived primarily from property tax collections (78.1% of fiscal 2016 total governmental revenues), with fees of office (8.3%), and charges for services (7.7%) representing the next largest sources. Property tax collections remain healthy, with annual collections exceeding 98% for the past 10 years. The county's limited tax rate for fiscal 2018 includes 25.9 cents levied for maintenance and operations and 16.75 cents dedicated for debt service, for a combined rate of 42.65 cents per $100 of AV--well below the state cap of 80 cents per $100 of AV.

For fiscal 2017 (still under audit), the county is anticipating a surplus of about 8% in the general fund, or roughly $12.6 million net of nonrecurring expenditures, due to both revenues and expenditures outperforming budgeted projections. In our view, fiscal 2015 performance was very strong, while fiscal 2016 was strong. For fiscal 2018, currently underway, management has budgeted for another strong surplus, with no significant budgetary pressures or issues identified that could adversely affect performance. Based on this information, and the county's historical trend of conservative budgeting, we expect budgetary performance to remain at least strong in the near term.

Very strong budgetary flexibility

Williamson County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 56% of operating expenditures, or $82.6 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 57% of expenditures in 2015 and 54% in 2014.

The county has maintained reserves in excess of 50% of general fund expenditures for the past seven audited fiscal years, providing significant flexibility over its formal 35% reserve policy. Following a strong projected budgetary surplus in fiscal 2017, management anticipates adding more than $3.6 million to unassigned fund balance, and increasing total general fund balance to nearly $100 million. While the tentatively plans to reduce fund balance over the next two years by cash-financing certain capital projects (and as prescribed under its cash-ending reduction plan), current projections show that fund balance will remain above 40% of expenditures. In light of this, and management's ability to reliably produce strong surpluses, we expect the county to maintain very strong budgetary flexibility over the next two years.

Very strong liquidity

In our opinion, Williamson County's liquidity is very strong, with total government available cash at 68.8% of total governmental fund expenditures and 2.1x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

The county's strong access to external liquidity is supported by its regular issuance of tax-supported obligations. All of its current investments comply with Texas statutes and the county's internal investment policy. The investments are not aggressive, in our view, and are available and liquid within a year. At year-end fiscal 2016, the county's investments included federal funds, money market funds, municipal bonds, commercial paper, and state pooled investments. Williamson County has historically had what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will deteriorate in the near term.

The county has approximately $19.5 million outstanding in variable-rate debt and $77.3 million in debt that is privately placed. We do not consider these contingent liability risks, as they do not contain any non-standard events of default, cross-default provisions, or acceleration clauses. Therefore, we do not believe the county has exposure to liquidity pressure from contingent liabilities.

Very weak debt and contingent liability profile

In our view, Williamson County's debt and contingent liability profile is very weak. Total governmental fund debt service is 32.5% of total governmental fund expenditures, and net direct debt is 330.5% of total governmental fund revenue.

Following this issuance, which constitutes the remainder of its 2013 road improvements authorization, Williamson County will have roughly $947 million of direct debt outstanding--a level which we consider elevated. However, AV growth has regularly outpaced new debt issuance in recent years, and overall net debt represents only 7.5% of fiscal 2018 market value. To help manage its high debt burden, the county has implemented a debt-defeasance program, and plans to defease nearly $35 million of outstanding debt over the next two fiscal years. Exclusive of this sum, debt amortization is, in our view, average, with approximately 56% of principal outstanding set to be retired over the next 10 years. Management tentatively plans to issue an additional $60 million in fiscal 2019 for future capital needs; however, it is our opinion that the county's elevated debt profile will not be materially affected, and that the sizable tax base and low tax rate can support the additional debt.

Williamson County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.8% of total governmental fund expenditures in 2016. Of that amount, 4.2% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The county made its full annual required pension contribution in 2016.

The county participates in the Texas County and District Retirement System (TCDRS), which is administered by the State of Texas, and is the county's largest plan. Williamson County's required pension contribution is its actuarially determined contribution, which is calculated at the state level, based on an actuarial study. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, the county's net pension liability was measured as of Dec. 31, 2015 at $110.2 million. The TCDRS plan maintained a funded level of 73.9%, using the plan's fiduciary net position as a percent of the total pension liability. (For additional details on GASB 67 and 68, see our report "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect).

In addition to pension benefits, Williamson County provides all retired employees with a medical insurance benefit plan up until the age of 65, although the costs associated with this plan are nominal. We do not expect the county's pension and OPEB contributions to have a material effect on the county's budgetary performance over the next two years.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects our view of Williamson County's stable economic base, which benefits from its access and participation in the Austin-Round Rock MSA. The outlook also reflects our expectation that management will maintain the county's very strong budgetary flexibility, including an available general fund balance in line with historical levels. We also do not expect significant change to Williamson County's very weak debt profile, considering the planned annual issuances under its current bond program and that the county will continue to proactively monitor its pension liabilities. For these reasons we don't expect to change the rating over the two-year outlook period.

Downside scenario

Should the county's budgetary performance, flexibility, or economic characteristics materially weaken, and should very high debt levels result in fixed cost pressure, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 14, 2017)		
Williamson Cnty Comb Tax and Rev Certs of Oblig ser 2015 dtd 04/15/2015 due 02/15/2040		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of November 14, 2017) (cont.)		
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Williamson Cnty GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Williamson Cnty GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Long Term Rating	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.