S&P Global Ratings

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Summary:

Williamson County, Texas; General Obligation

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Credit Profile		
US$120.0 mil ltd tax notes ser 2023 dtd 05/10/2023 due 02/15/2030		
Long Term Rating	AAA/Stable	New
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

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Williamson County, Texas' roughly $120 million series 2023 limited-tax notes.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the county's existing general obligation (GO) debt.
- The outlook is stable.

Security

The series 2023 notes and the county's outstanding limited-tax bonds, 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.

Outstanding 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.

The county's outstanding 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.

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, 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, and 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.

Officials intend to use series 2023 note proceeds to finance road improvements countywide and complete the Juvenile Justice Facility renovation/expansion.

Credit overview

Williamson County is one of the fastest-growing counties in the country, benefiting from the rapid growth and development occurring in and around the Austin-Round Rock metropolitan statistical area (MSA). It has experienced significant rapid tax base increases in recent years, which we expect to continue. The county has a history of solid finances, bolstered by growth and illustrated by year-over-year property tax gains. It maintains a healthy fund balance to mitigate any unknowns, and though drawdowns for capital are expected in coming years, officials remain committed to its fund balance policy of 35% of operating expenditures. Williamson County inevitably has high debt to accommodate the growth-based capital needs; however, it continues to utilize 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 is another credit positive.

The rating reflects our opinion of the county's:

- Robust, rapidly growing economy with access to a broad, diverse MSA;
- Historically positive operating performance and maintenance of very strong reserves and liquidity, with planned spenddown of reserves beginning in fiscal 2024;
- Very strong management, with strong financial management policies and procedures under our Financial Management Assessment (FMA) methodology and a strong institutional framework score; and
- Weak debt profile, with annual issuances expected, albeit with fairly rapid amortization and a debt defeasance program, and an overfunded pension.

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. The county maintains very strong reserve levels to mitigate unexpected weather-related costs.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Williamson County's continued economic expansion, which we believe will lead to continued multiyear positive operating performance and 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 the Austin-Round Rock MSA

Williamson County is experiencing significant rapid tax base growth, one of the state's and nation's fast-growing in recent years: up 26% in one year and up 65% in five years, to $107 billion in fiscal 2023. The county is located 12 miles north of downtown Austin, benefiting from close access to major transportation corridors, large metropolitan areas, and employment centers as part of the Austin-Round Rock MSA. The technology sector continues to be prevalent in the county, with Dell, Amazon, and IBM Corp. present, and both Tesla and Apple are currently undergoing expansions in the area. The county is experiencing growth in various other industries as well, including health care, retail, restaurants, distribution, and solar. Residential development continues to be strong, with many single-family and multifamily developments. As the county continues to experience strong, continuous economic development, we expect its economy will remain very strong.

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;
- Monthly fiscal presentations to the commissioner's court that track revenue, expenditures, and investment performance;
- Capital improvement plan (CIP), consisting of a list of projects that is updated annually and, if not completed, is rolled forward, with one-fifth of fund balance over formal policy allocated as the funding source;
- 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.

The institutional framework score for Texas counties is strong.

History of positive operating performance; maintenance of very strong reserves though spenddown for capital expected

The county has a history of operating surpluses in the general fund 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 14% in three fiscal years. Officials expect this trend to continue, commensurate with growth in the county. Vacant positions have also contributed to the surpluses, though officials have begun addressing retention and hiring with salary increases. We do not expect this to create an imbalanced budget at this time, as revenues are projected to outpace expected salary increases in the near term. Fiscal 2023 is trending positively at this point in the year and officials expect to end with another surplus, driven once again by rising revenues and employment vacancies.

Beginning in fiscal 2024, the county plans to spend down roughly $15 million annually of fund balance for capital projects for the next several years; however, officials remain committed to their formal reserve policy of 35% of operating expenditures, and we expect reserves will remain very strong.

The county has approximately $33.65 million in privately placed debt (3% 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. As a result of management's demonstrated ability to maintain balanced operations, we do not think cash will likely deteriorate.

Weak debt profile precipitated by growth but partially mitigated by debt defeasance program and fairly rapid amortization

We consider the county's 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 whereby the county has defeased $147.15 million of debt since the program's inception and has budgeted $30 million to defease in fiscal 2023. Though the county does not have definitive additional debt plans at this time, as growth continues, we anticipate frequent issuances but expect costs to remain manageable with the continuance of its 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, Williamson 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, 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 $55.6 million as of Sept. 30, 2022.

Williamson County--Key Credit Metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	132			
Market value per capita ($)	175,239			
Population			613,104	585,379
County unemployment rate (%)			4.0	
Market value ($000)	107,439,468	84,996,144	75,366,442	
Ten largest taxpayers % of taxable value	2.6			
Strong budgetary performance				
Operating fund result % of expenditures		3.4	14.0	9.5
Total governmental fund result % of expenditures		2.7	17.7	8.5
Very strong budgetary flexibility				
Available reserves % 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		99	110	80
Total government cash % of governmental fund debt service		378	443	358
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		26.1	24.9	22.5
Net direct debt % of governmental fund revenue	242			
Overall net debt % of market value	6.2			
Direct debt 10-year amortization (%)	76			
Required pension contribution % of governmental fund expenditures		3.4		
OPEB actual contribution % of governmental fund expenditures		0.4		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- 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 April 4, 2023)		
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of April 4, 2023) (cont.)		
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