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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$175.285 mil ltd tax rfdg bnds taxable ser 2021 dtd 02/17/2021 due 02/15/2031		
Long Term Rating	AAA/Stable	New
US$12.49 mil ltd tax rfdg bnds ser 2021 dtd 02/17/2021 due 02/15/2031		
Long Term Rating	AAA/Stable	New
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings has assigned its 'AAA' long-term rating to Williamson County, Texas' $175 million series 2021 limited-tax refunding (taxable) bonds and $12.5 million limited-tax refunding bonds. At the same time, we affirmed our 'AAA' long-term rating and underlying rating on the county's previously issued general obligation (GO) debt. The outlook on all ratings is stable.

The bonds constitute direct obligations 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 located 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, given the fungibility of the county's revenues and flexibility under the levy limit. Proceeds from the sale of bonds will refund existing debt for a projected net present value savings with no extension of the final maturities.

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.

Credit overview

Williamson County continues to benefit from the rapid growth and development occurring in and around the Austin-Round Rock, Texas metropolitan statistical area (MSA). As the county has experienced solid gains in taxable value, so has its primary revenue stream, property taxes. Steady annual growth in revenues has allowed the county to effectively manage rising service demands and increase fiscal reserves. Despite some disruptions in the local economy due to the COVID-19 pandemic, the county's growth has offset them and supported stable key economic metrics, which we expect will remain stable in the coming years. However, the pandemic could pose significant obstacles to economic recovery well into 2021. (See "Staying Home For The Holidays," published Dec. 2, 2020, on RatingsDirect).

The county's debt profile remains high. Despite this, strong fiscal management practices, close monitoring of the debt profile, and the county looking to reduce its overall debt through defeasance, along with cash funding some projects versus using debt, should ensure fixed costs do not escalate to a point where budgetary performance is challenged.

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

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 48% of operating expenditures;
- Very strong liquidity, with total government available cash at 68.5% of total governmental fund expenditures and 2.5x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 27.6% of expenditures and net direct debt that is 265.0% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance factors

We analyzed the county's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. We view the risk posed by the COVID-19 pandemic to public health and safety as a social risk that, if sustained, could weaken the local economy through higher unemployment and disruptions in consumer spending. Absent the implications of COVID-19, we consider the county's social risks in line with those of the sector.

Stable Outlook

The stable outlook reflects the county's expanding economy, benefitting from its access and participation in the Austin-Round Rock MSA, as well as maintenance of very strong budgetary flexibility including an available general fund balance in line with historical levels. We don't expect to change the rating in the next two years.

Downside scenario

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

Credit Opinion

Very strong economy

We consider the county's economy very strong. Williamson County, with an estimated population of 565,129, is in the Austin-Round Rock, TX MSA, which we consider broad and diverse. The county has projected per capita effective buying income of 129% of the national level and per capita market value of $128,530. Overall, its market value grew by 4.4% over the past year to $72.6 billion in 2021. The county unemployment rate was 2.8% in 2019.

Williamson County is located about 12 miles north of downtown Austin, and the city of Georgetown serves as the county seat. County residents benefit from proximity to major transportation corridors as well as access to large metropolitan areas and employment centers. The county continues to develop as expansion out of the Austin area moves further north. Market value growth is climbing steadily, which makes the county one of the fastest growing in the state and nation. The top 10 taxpayers are diverse, make up a modest 2.5% of the total tax base, and include several energy providers, office buildings, shopping malls, and Dell Technologies, the county's largest taxpayer.

Despite the disruption of the local and regional economies due to the pandemic, various sectors in the county, including commercial and residential, continue to grow. The county reports continued significant population growth that is expected well past the next decade. About 1,800 apartments, a 340-room hotel, and 80,000 square feet of retail space could be added to a large business park next door to Apple's $1 billion campus. Site development is planned for early 2021. Kalahari Resorts opened as Round Rock's second largest employer with 1,050 employees in November 2020. By spring 2021, the company is expected to employ 1,200. A Costco warehouse also anticipates expansion with a store in the coming years. Dell Children's Medical Center and Texas Children's Hospital have announced planned expansions.

County officials also report the demand for housing remains high as the population surges. Residential development, both single- and multi-family, is occurring throughout the county. Despite the presence of COVID-19 cases, many businesses remain open under restricted guidelines. County officials do not anticipate a significant deterioration of total market value or significant declines in local sales tax collections, which is in part due to the offsetting factor of growth.

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 uses demographers to predict growth trends. Management provides to the commissioner's court monthly fiscal presentations 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 revenue and expenditures. It has adopted a formal debt management policy that extends beyond state guidelines and 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 it has strong budgeting and investment policies and reporting practices.

Adequate budgetary performance

Williamson County's budgetary performance is adequate in our opinion. The county had surplus operating results in the general fund of 5.9% of expenditures, but a deficit result across all governmental funds of 1.6% in fiscal 2019. General fund operating results of the county have been stable in the past three years, with a result of 6.0% in 2018 and 6.5% in 2017.

The county maintains stable financial operations, which are bolstered by strong financial management practices. Despite economic disruptions, we expect it will maintain strong financial metrics in the near to medium term. Rising revenue and property tax collections support a larger budget, increased fiscal reserves, and general financial stability. In fiscal 2019, approximately 80% of the county's general fund revenue was derived from property taxes, which have risen steadily, given an expanding tax base and ongoing commercial and residential growth. Following transfers in and out of the general fund, revenue exceeded expenditures by $6.5 million. The county also recorded $5 million in capital spending on voting machines, which is not expected to be a reoccurring expenditure.

Officials report stable 2020 fiscal performance and an operating surplus for the year. Close monitoring of expenditures and stable revenue collections supported the positive year. Williamson County was a direct recipient of $93.3 million in CARES Act funds. A good portion of the funds has been directed to small business (roughly $35 million) and individual rent/utility assistance ($4 million). Schools and cities have a $12 million and $8 million budget respectively, and the county has a $12 million budget from these funds. The county used CARES Act funding for pandemic-specific one-time expenditures that also supported the county meeting budget expectations. For 2021, county officials remain cautiously optimistic about revenue collections. The county does not anticipate any significant decline in fiscal performance or reserves in the year.

Very strong budgetary flexibility

Williamson County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 48% of operating expenditures, or $91.2 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.

Williamson County has maintained solid reserves, providing significant flexibility over its formal 35% reserve policy. Given expected positive budgetary performance in 2020, we expect the county's total fund balance to increase to $138 million, $106 million of which we would consider available. Although the county continues to look for opportunities to cash-fund certain capital projects, and as prescribed under its cash ending reduction plan, current projections show that fund balance will remain above 35% of expenditures. Given management's ability to reliably produce strong surpluses, we expect Williamson County will 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 68.5% of total governmental fund expenditures and 2.5x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

Williamson County's strong access to external liquidity is supported by its regular issuance of tax-supported obligations. Currently, all its investments comply with Texas statutes and the county's internal investment policy. Investments are not aggressive, in our view, and are available and liquid within a year.

The county has approximately $67 million in debt that is directly placed. However, we do not consider this a contingent liability risk, as the debt does not contain any non-standard events of default, cross-default provisions, or acceleration clauses. The 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 the cash position will deteriorate.

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 27.6% of total governmental fund expenditures, and net direct debt is 265.0% of total governmental fund revenue.

We consider the county's debt profile to be elevated. However, market value growth has regularly outpaced new debt issuance in recent years, and overall net debt represents only 7.6% of fiscal 2021 market value. To help manage this high debt burden, the county has implemented a debt-defeasance program and does not anticipate any increase in the debt service tax levy in association with the new issue. Debt amortization is average, with approximately 62.5% of principal set to be retired over the next 10 years, which is more rapid than in years past. Debt service in 2019 represented 27.6% of adjusted total governmental fund expenditures, which we consider high. We expect future bonding by the county, given its expected growth and future capital needs.

Williamson County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.2% of total governmental fund expenditures in 2019. Of that amount, 3.7% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The county made 106% of its annual required pension contribution in 2019.

Pension and other postemployment benefits liabilities

We do not view pension and OPEB liabilities as an immediate source of credit pressure, as required contributions account for a small portion (3.7%) of total governmental expenditures and are not expected to materially increase over the next few years given the county's favorable funding discipline. The county participated in the following plans as of Sept. 30, 2019:

- Texas County and District Retirement System, 82.1% funded with a proportional share of the net pension liability equal to $86.9 million.

In fiscal 2019, contributions fell modestly short of static funding and minimal funding progress. In addition to pension benefits, Williamson County provides all retired employees with a medical insurance benefit plan until the age of 65, although the costs associated with this plan are nominal. The county has elected to manage the costs on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of January 14, 2021)		
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
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Long Term Rating	AAA/Stable	Affirmed
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Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Williamson Cnty GO (AGM)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Williamson Cnty GO (MBIA) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.