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Summary:

Williamson County, Texas; General Obligation

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Summary:

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Credit Profile		
US$200.0 mil ltd tax notes ser 2021 dtd 08/03/2021 due 02/15/2028		
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

Rating Action

S&P Global Ratings has assigned its 'AAA' long-term rating to Williamson County, Texas' $200 million series 2021 limited-tax notes. 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 county's limited-tax bonds, limited-tax notes, and certificates of obligation 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.

The certificates are additionally secured by, and payable from, a limited pledge of surplus revenue of the county's landfill, not to exceed $1,000. Because of the limited nature of the pledge, the rating reflects the strength of the ad valorem tax pledge.

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.

Williamson County's notes 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. 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. In our view, pledged revenue supporting debt service on the notes is at limited risk of negative sovereign intervention.

Proceeds from the sale of the notes will be used to make rights-of-way, roads, and county building improvements throughout the county.

After this issuance, the county will have approximately $1.17 billion of net direct debt outstanding.

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, which we expect to continue. Steady annual growth in revenues has allowed the county to effectively manage rising service demands and increase fiscal reserves. The county historically outperforms its reserve policy, and we expect it will likely maintain healthy fund balance to handle unknowns.

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;
- Strong budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 54% of operating expenditures;
- Very strong liquidity, with total government available cash at 80.5% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 22.5% of expenditures and net direct debt that is 255.0% of total governmental fund revenue, but rapid amortization, with 72.0% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

The stable outlook reflects the county's growing economic base, benefiting from its access to and participation in the Austin-Round Rock, TX 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.

Environmental, social, and governance (ESG) factors

We have analyzed the county's ESG risks relative to its economy, management, budgetary outcomes, and debt and liability profile, and have determined governance risks are in line with the sector standard.

Stable Outlook

Downside scenario

Should the county's budgetary performance or flexibility weaken, or if significant debt issuance not offset by market value growth 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 585,379, 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 131% of the national level and per capita market value of $124,084. Overall, the county's market value grew by 4.4% over the past year, to $72.6 billion in 2021. The county unemployment rate was 5.9% in 2020.

Williamson County is located approximately 12 miles north of downtown Austin, where the city of Georgetown serves as the county seat. County residents benefit from close proximity to major transportation corridors as well as access to large metropolitan areas and employment centers. The county continues to grow and develop as expansion out of the Austin area moves further north. Market value growth continues on a steady positive climb, which makes the county one of the fastest-growing in the state and nation. The county's top 10 taxpayers are diverse, making up a modest 2.6% of the total tax base, and include several energy providers, office buildings, shopping malls, and Dell Computer Holdings LP, the county's largest taxpayer.

The county continues to experience growth in various sectors, including commercial and residential. The county reports an increase of over 10,000 new residential units and approximately 336 new commercial units, an increase of 24% from the previous year. Construction has begun on Dell Children's Medical Center, a 187,000 square foot facility, and is expected to be open before the end of 2022. An adjacent 60,000-square-foot Level 3 pediatric trauma center will open by April 2022.

Other notable developments in the county include: Firefly Aerospace, which was awarded a contract from NASA and purchased a 40,000-square-foot building into which it will expand; Ametrine, Inc., a manufacturer of advanced multispectral camouflage systems that consistently works with the U.S. Department of Defense and has its new U.S. headquarters in Round Rock; and Loram Technologies, a global rail maintenance and rail services company that has plans to start construction later this year on an innovation center for research and development. There are also a number of offices, restaurants, and hotels opening or newly opened. Given the continuous development occurring and all the future plans already underway, we do not anticipate a slowdown in the county's economy in the near future.

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 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 sources identified annually. It also has a long-term financial model in place that forecasts future revenues 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 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 9.5% of expenditures in the general fund and 8.5% across all governmental funds in fiscal 2020. While we expect Williamson County to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

Williamson County maintains stable financial operations, which are bolstered by strong financial management practices. Despite economic disruptions, we anticipate the county will maintain strong financial metrics in the near to medium term. Rising revenues and property tax collections support a larger budget, increased fiscal reserves, and general financial stability. In fiscal 2020, approximately 81% of the county's general fund revenues were derived from property taxes, which have grown steadily, given an expanding tax base and ongoing commercial and residential growth. Following transfers in and out of the general fund, revenues exceeded expenditures by $18.9 million. Officials advised that $32 million in capital improvement projects were not completed or delayed by COVID-19, and were rolled over into fiscal 2021.

Officials report stable 2021 fiscal performance after budgeting conservatively to account for uncertainty surrounding COVID-19, and anticipate exceeding revenue projections in the general fund, and spending only 75% of what was budgeted for expenditures, thus leading to an expected end-of-year surplus.

For fiscal 2022, the county is still in the planning phase. Its priorities include new personnel, a new EMS station, and debt defeasance in the amount of $25 million.

Williamson County has received $57 million from the American Rescue Plan, and is expecting another $57 million. Officials are working with their cities to gather requests and plan how to disburse the funds, with a focus on water and wastewater projects, as well as law enforcement, mental health, and health care needs.

Very strong budgetary flexibility

Williamson County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 54% of operating expenditures, or $106.3 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 2021, we anticipate the county's total fund balance will increase to $174 million, $128 million of which we would consider available. While the county continues to look for opportunities to cash-fund certain capital projects, 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 produce reliably strong surpluses, we expect Williamson 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 80.5% of total governmental fund expenditures and 3.6x governmental debt service in 2020. 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 of 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 privately placed. However, we do not consider this a contingent liability risk, as the 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 and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will deteriorate.

Weak debt and contingent liability profile

In our view, Williamson County's debt and contingent liability profile is weak. Total governmental fund debt service is 22.5% of total governmental fund expenditures and net direct debt is 255.0% of total governmental fund revenue. Approximately 72.0% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

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 8.1% 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. As a result of this program, the county has defeased a total of $1.1 billion in debt since fiscal 2015, and expects to defease $25 million in fiscal 2021 and $25 million in fiscal 2022. Debt amortization is fairly rapid, with approximately 72% of principal set to be retired over the next 10 years. Debt service in 2020 represented an elevated 20.8% of adjusted total governmental fund expenditures. The county is planning a $112 million issuance in January 2022. 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 benefit (OPEB) contributions totaled 4.2% of total governmental fund expenditures in 2020. Of that amount, 3.7% represented required contributions to pension obligations and 0.6% represented OPEB payments. The county made 105% of its required pension contribution in 2020.

We do not view pension and OPEB liabilities as an immediate source of credit pressure, as required contributions account for a small portion (4.2%) 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, 2020:

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 89.4% funded with a net pension liability equal to $55.6 million. Contributions are actuarially determined, and the county has consistently contributed in excess of its annual required costs. Plan contributions were sufficient to cover 98% of our minimum funding progress guideline, indicating progress made toward reducing the long-term liability. Actuarial assumptions include an 8% discount rate and a closed amortization period. We view a 6% discount rate as a conservative measure of future investment returns, and therefore, view the plan's assumed 8% discount rate as aggressive.

The county provides certain health care benefits through a single-employer, defined-benefit OPEB plan for all full-time employees who meet eligibility requirements. In fiscal 2020, Williamson County contributed $2.3 million to the plan on a pay-as-you-go basis. The county's net OPEB liability was $59 million as of Sept. 30, 2020.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of July 29, 2021)		
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
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Ratings Detail (As Of July 29, 2021) (cont.)		
Williamson Cnty GO		
Long Term Rating	AAA/Stable	Affirmed