Williamson County, Texas

New Issue Report

New Issue Summary

Sale Date: 11/16/2017
Series: $75,000,000 unlimited tax road bonds, series 2017
Purpose: constructing, improving, renovating, equipping and acquiring land, buildings and facilities for park and recreational purposes
Security: unlimited ad valorem tax levied against all taxable property in the county

Analytical Conclusion

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

Williamson County occupies a sizable 1,104 square miles in central Texas with a 2016 population of 528,718, approximately double that of 15 years ago. The county lies just north of Austin along the well-traversed I-35 corridor.

Key Rating Drivers

Revenue Framework: 'aaa'
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 within constitutional limits.

Expenditure Framework: 'aa'
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 control labor costs. Currently elevated carrying costs, 28% of fiscal 2016 governmental spending, are expected to remain at current levels for the next few years given the county's debt service structure.

Long-Term Liability Burden: 'aa'
Fitch does not expect a near-term reduction in the county's moderate long-term liability burden, given the potential for continued increases in overlapping debt.

Operating Performance: 'aaa'
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.
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 2016 with unrestricted operating reserves of $86.4 million (53.9% of spending). Fiscal 2017 estimates reserves to be at about $99 million (63% of estimated spending). The county intends to use some reserve funds for capital projects planned in Fiscal 2018 and 2019 while maintaining a high level of reserves.

The county applies up to 25% of surplus general fund revenues (in excess of its unrestricted fund balance policy target of 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/or debt retirement. These monies also increase the county’s operational flexibility if needed.
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 cyclical technology sector downturns and associated layoffs.

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’s operating revenues, primarily from ad valorem property taxes, have increased at a healthy pace of 6% annually 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 10.4% on average over the past five years and the preliminary estimate for fiscal years 2018, 2019, and 2020 taxable assessed valuation (TAV) points to similar increases if not larger; three-quarters of the growth is due to reappraisal gains. Fitch believes the residential component of the tax base could be pressured in the event of an economic downturn, as reflected in Fitch’s assessment of the Austin MSA as the area with the highest level of home price overvaluation in the U.S. For more information see Fitch’s U.S. RMBS Sustainable Home Price Report (Second-Quarter 2017 Update), dated Sept. 21, 2017. Extensive new development and business expansion, planned and underway, bode well for ongoing tax base growth through the medium term.

Williamson County’s fiscal 2018 ad valorem tax rate, used for operations, of $0.4665 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 roughly 55% 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 certain road projects between cities and the state.

Williamson County maintains full control over headcount and salaries within its annual budgeting process, resulting in solid expenditure flexibility, which has been tapped during periods of economic slow-down. Fitch anticipates the county’s elevated carrying costs (representing 28% of fiscal 2016 governmental spending) will remain at current levels for the next few years given the county’s debt service structure.

Long-Term Liability Burden

Williamson County’s long-term liability burden represents a moderate 20% of its residents’ 2016 personal income. Fitch expects the county’s long-term liability burden to remain moderate because population and income growth are likely to be aligned with additional debt needs of

Related Criteria

- U.S. Public Finance Tax-Supported Rating Criteria (May 2017)
the county and overlapping governmental entities. About 75% of the total liability burden is comprised of overlapping debt, mostly driven by the county's 16 school districts.

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 exhausts the remaining authorization; management reports that additional bond authorization won’t be sought prior to 2019.

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 2016 net pension liability (NPL) of $110 million, with fiduciary assets covering 74% of total pension liabilities at the plan’s 8% investment return assumption (approximately 54% based on Fitch’s lower 6% 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. For details, see Scenario Analysis, page 2.

Williamson County’s strong budgetary 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.
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