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**Summary:**
# Williamson County, Texas; General Obligation

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**Summary:**

# Williamson County, Texas; General Obligation

| Credit Profile | | |
|---|---|---|
| US$33.135 mil ltd tax rfdg bnds ser 2011 dtd 10/15/2011 due 02/15/2023 | | |
| *Long Term Rating* | AAA/Stable | New |
| US$10.0 mil pass-through toll rev and ltd tax bnds ser 2011 dtd 11/01/2011 due 02/15/2031 | | |
| *Long Term Rating* | AAA/Stable | New |

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Williamson County, Texas' series 2011 passthrough toll revenue and limited-tax bonds, and series 2011 limited-tax refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the county's general obligation (GO) debt outstanding. The outlook on all ratings is stable.

The ratings reflect our view of the county's:

- Deep and diverse tax base, access to the Austin MSA, and very strong income levels;
- Successful management of growth-related pressures;
- Consistently strong financial management and very strong financial performance; and
- Relatively low level of funding interdependencies with the federal government.

Officials will use the passthrough toll revenue and limited-tax bond proceeds primarily to fund costs associated with designing, developing, financing, constructing, maintaining, operating, extending, expanding, or improving roads on the state highway system located in the county. The bonds constitute direct obligations of the county payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the county and are additionally secured by a lien on and pledge of the pledged revenues, consisting of the passthrough revenues received by the county pursuant to a passthrough toll agreement between the county and the Texas Department of Transportation (TxDOT).

Proceeds from the refunding bonds will be used to refund a portion of the county's GO obligations outstanding to achieve net present value savings, projected at approximately 4%. The refunding bonds are secured by a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the county.

Williamson County is located in central Texas and encompasses approximately 1,104 square miles. The county's population and property tax base have grown considerably in the past five years due in part to the county's proximity to Austin, Texas (AAA/Stable GO debt rating) and the high-tech sector's expansion. Moreover, Interstate Highway 35 traverses the center of the county, passing through the county seat of Georgetown (AA+/Stable GO debt rating) and Round Rock (AA+/Stable GO debt rating); this highway also provides limited-access roadways to Dallas and Fort Worth to the north and to Austin and San Antonio to the south. The county's population is up by 27% since 2005 to more than 422,679. Median household income is very strong, in our opinion, at 135% of the national average. Moreover, we consider market value per capita as very strong, at $80,834. Due to a slight drop in residential values and an overall slowdown in the economy, the county's assessed value (AV) declined slightly to

$33.4 billion in fiscal 2011; however, preliminary fiscal 2012 AV increased by about 2.4% to approximately $34.2 billion. Previously, the property tax base had grown by a cumulative 49% between fiscal 2005 and fiscal 2010 to $33.6 billion. The county has benefited from the expansion of Dell Computer Corp., Cypress Semiconductors Co., and 3M, as well as sustained rapid residential development. More recently, Williamson County has experienced growth in the retail and manufacturing sectors. Upcoming and recent development includes the opening of two new hospitals, Emerson Process Management's relocation of its division headquarters to the county (with an anticipated 750 new jobs to be added in 2012), and various other commercial land development projects.

The county's financial performance and position remain very strong, in our opinion. Since fiscal 1993, management has consistently met or exceeded the previous minimum general fund balance reserve policy of 16% of total general fund expenditures. Management recently changed this policy to be 30% of total general fund expenditures, and has met this requirement for the past six years. Due to conservative budgeting, the county ended fiscal 2010 with a general fund operating surplus of approximately $7.8 million, which increased the unreserved general fund balance to $58.9 million, or 51% of expenditures, which we consider very strong. In addition, because of conservative budgeting and lower-than-budgeted expenditures, unaudited figures for fiscal 2011 reflect an additional general fund surplus, which will boost the county's general fund balance to approximately $66.3 million. For fiscal 2012 the county has adopted a balanced budget. The county's ad valorem tax rate for fiscal 2012 is 45.77 cents per $100 of AV, of which 28.77 cents is levied for maintenance and operations and the remaining 17 cents is levied for debt service.

The county exhibits a relatively low level of funding interdependencies with the federal government. For fiscal 2010, federal grant programs accounted for less than 1% of total governmental revenues.

The county's annual pension cost to the Texas County and District Retirement System (TCDRS) decreased to $7.6 million in fiscal 2010, or about 7% of expenditures, from $8.1 million in fiscal 2009. The pension actuarial value of assets as a percentage of the actuarial accrued liability, or the funded ratio, was 84.7% as of Dec. 31, 2009. The county's net other postemployment benefit liability was approximately $10.9 million at the end of fiscal 2010.

Williamson County's management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of "strong" indicates that practices are strong, well embedded, and likely sustainable. The government maintains most best practices deemed critical to supporting credit quality and these are well embedded in the government's daily operations and practices. Formal policies support many of these activities, adding to the likelihood that these practices will be continued into the future and transcend changes in the operating environment or personnel. The county has strong budgeting and investment policies and reporting practices.

The series 2011 passthrough toll revenue and limited-tax bonds constitute the fourth and final installment of the county's 2006 passthrough toll agreement with TxDOT. Williamson County's overall net debt burden will initially rise to 9.7% of market value, which we view as moderately high, or approximately $7,854 per capita, which we consider high. The county will begin to receive reimbursements from TxDOT after eligible projects are completed, and that money will be used to pay debt service on the series 2011 passthrough toll revenue and limited-tax bonds. TxDOT has agreed to reimburse the county up to 88% of the participation cost incurred by the county. For the entire agreement, which includes all four series of bonds, the agreed-on reimbursement rate is 10 cents per vehicle-mile, to be paid semi-annually, with a guaranteed minimum payment of $7.5971 million annually. The maximum annual reimbursement is $15.1942 million with a maximum of $151.942 million during the course of the agreement. Standard & Poor's does not yet view this debt as self-supporting.

The county's debt service carrying charges for fiscal 2010 accounted for 21% of operating expenditures, which we consider elevated; carrying charges have been consistently high, but level, over the past several years. Even after the county begins to receive reimbursements from TxDOT, the county's debt levels will likely remain pressured, in our opinion, given that the county's cities and school districts will continue to issue additional debt to meet the rapidly growing population's needs. The county's debt amortization schedule is somewhat front-loaded, with about 45% of principal retiring over the next 10 years, about 92% over the next 20 years, and all debt currently scheduled to retire by 2036. We believe management's willingness to fund only major priority projects, mainly roads, has allowed it to keep debt ratios fairly stable over the past seven years. We understand that while the county currently has no firm plans to issue additional debt within the near term, county officials are meeting semi-monthly between now and the spring of 2012 to map out the county's future capital needs.

## Outlook

The stable outlook reflects our view of the county's deep, diverse, stable, and expanding economic base. The outlook also reflects our anticipation that the county's financial position will remain very strong as management continues to address potential growth-driven capital needs. We also anticipate that the county will prudently maintain annual debt service. However, a substantial increase in the overall net debt burden without commensurate growth in the tax base could lead to a negative rating action.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

| **Ratings Detail** (As Of November 3, 2011) | | |
|---|---|---|
| Williamson Cnty GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| **Williamson Cnty GO** | | |
| *Unenhanced Rating* | AAA(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

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