S&P Global
Ratings

RatingsDirect®

Summary:

Travis County, Texas; General Obligation

Primary Credit Analyst:
Jennifer K Garza (Mann), Dallas (1) 214-871-1422; jennifer.garza@spglobal.com

Secondary Contact:
Omar M Tabani, Dallas (1) 214-871-1472; omar.tabani@spglobal.com

Table Of Contents

Summary:

Travis County, Texas; General Obligation

Credit Profile		
US$99.97 mil ltd tax rfdg bnds ser 2016A dtd 08/01/2016 due 03/01/2031		
Long Term Rating	AAA/Stable	New
US$22.2 mil ltd tax rfdg bnds ser 2016B dtd 08/01/2016 due 03/01/2022		
Long Term Rating	AAA/Stable	New
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Travis County, Texas' series 2016A and 2016B limited tax refunding bonds. In addition, S&P Global Ratings affirmed its 'AAA' rating on the county's tax-secured debt outstanding. The outlook on all the ratings is stable.

The limited tax refunding bonds are payable from the receipts of a separate, direct, and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within Travis County. The county's certificates are additionally secured by and payable from a limited pledge of the surplus revenues of the county's solid waste disposal system. However, due to the limited nature of the pledge and lack of legal covenants in place for the revenue pledged portion of the security, the rating reflects the strength of the general obligation rating. In addition, while the county's total tax rate is limited by state statute at 80 cents per $100 of assessed value (AV), the county has significant tax-raising flexibility, in our opinion, having levied just 41.69 cents per $100 of AV for fiscal 2016. Therefore, we rate all of the bonds on par with the strength of an unlimited tax general obligation credit quality.

The road improvement bonds are payable from the receipt of a separate, direct, and continuing annual ad valorem tax levied, without limit as to rate or amount, on all taxable property within the county.

The series 2016A and 2016B refunding bond proceeds will be used to refund the county's parity bonds purely for present value savings.

Travis 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 "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the county has a predominantly locally derived revenue base, with 75% of general fund revenue derived from property taxes with independent taxing authority and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention.

The rating reflects the Travis County's:

1670949 | 302491962

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 45.9% of total governmental fund expenditures and 3.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 13.1% of expenditures and net direct debt that is 102.7% of total governmental fund revenue, as well as rapid amortization, with 69.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Travis County, with an estimated population of 1.2 million, is located in the Austin-Round Rock, Texas, MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 119% of the national level and per capita market value of $116,834. Overall, the county's market value grew by 14.8% over the past year to $137.1 billion in 2016. The county unemployment rate was 3.3% in 2015.

The state employs more than 48,000 people, making it Travis County's leading employer, followed by the University of Texas, which has more than 22,000 employees. Although the state and major university are leading employers, we do not believe they are suppressing wealth and income levels for the county. Expansion in the advanced technology sector, particularly the production of computers and microchips, has led to increased diversity in the local economy in the past two decades. We believe that the county's location and the availability of a highly skilled labor force should contribute to healthy employment growth in the next two years.

The county has a very diverse tax base, with the 10 leading taxpayers accounting for only 3.7% of total taxable AV in fiscal 2016. For tax year 2016, the appraisal district officials project an overall appraisal roll appreciation of approximately 13% AV growth driven primarily by growth in the commercial, apartment, office, and residential sectors. Furthermore, we do not anticipate the downturn in the energy industry to have a material negative impact on the county's taxable AV since mineral values do not make up a material proportion of the county's total tax base.

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.

Travis County Commissioners' Court has adopted a comprehensive set of financial and budgeting policies. Highlights of the county's financial policies include: a minimum fund balance requirement for the general, road and bridge, and debt service funds and limits on the use of reserve funds; and using a statistical model, management bases its revenue forecasts on historical trends.

Management prepares monthly budget reports and provides budget status reports to the county commissioners' court, and amends the operating budget monthly, as needed. The commissioners' court has adopted a comprehensive debt management policy. The court annually adopts a five-year rolling capital improvement plan and forecasts ongoing operational costs linked to the operating budget. Management prepares five-year financial forecasts that it presents to county commissioners during the budget adoption process. The commissioners' court has adopted an investment management policy that it reviews annually, and management provides the court with quarterly investment reports on holdings and returns.

Strong budgetary performance

Travis County's budgetary performance is strong in our opinion. The county had operating surpluses of 2.4% of expenditures in the general fund and of 4.2% across all governmental funds in fiscal 2015. General fund operating results of the county have been stable over the past three years, with a result of 2.7% in 2014 and a result of 0.9% in 2013.

The fiscal 2015 audited results reflected better-than-budgeted results with a 1.7% operating surplus, adjusting for recurring transfers and one-time capital expenditures, for fiscal 2015. Fiscal 2015 general fund revenues exceeded final budget by 3.6% due to stronger-than-budgeted performance in charges for services, investment income, and property tax receipts. Final general fund expenditures came in 8% below final budget due to lower salaries and benefits across general government, justice, and public safety. In addition, the county's property tax collection rate remained strong at 99.2% during fiscal 2015. Property tax revenue makes up more than 75% of fiscal 2015 general fund revenue.

The county's fiscal 2016 budget reflects use of general fund balance at 6.2%, and year-to-date the budget is trending as expected. The county budgets for use of reserves maintained in excess of 25% or expenditures for nonrecurring capital outlays or one-time initiatives. On a governmental basis, Travis County's capital needs, along with its need to continue to fund social programs, will likely result in strong performance in the next two years.

Very strong budgetary flexibility

Travis County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 29% of operating expenditures, or $151.7 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 29% of expenditures in 2014 and 29% in 2013.

The county has a history of conservative budgeting practices and has historically exceeded budgeted projections. Travis County is consciously choosing to bring the available fund balance closer to 25% of operations. The county has a predominantly locally derived revenue base, has demonstrated a broad and well-embedded culture of fiscal discipline, and has very little dependence on the federal government for revenue composition.

Despite the deficit budget adopted for fiscal 2015, actual operating results reflected an increase in the nominal level of reserve; however, after adjustments for recurring transfers and one-time capital expenditures, reserve levels have remained at about 29% of expenditures as per the audited results.

The fiscal 2016 budget is trending as budgeted year-to-date. The county has reduced the tax rate every year since fiscal 2013 to 41.69 cents per $100 of AV for fiscal 2016 from 50.01 cents per $100 of AV. Due to the county's historically conservative budgeting practices and practice of spending down reserves in excess of its reserve policy for one-time expenditures, we expect the reserve levels will remain very strong.

Very strong liquidity

In our opinion, Travis County's liquidity is very strong, with total government available cash at 45.9% of total governmental fund expenditures and 3.5x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

Travis County's strong access to external liquidity is supported by the county's regular issuance of tax-supported obligations. The county's investments are not aggressive, in our view, and are available and liquid within a year. Travis County does not have any current contingent liabilities that could lead to an unexpected deterioration from its currently very strong levels.

Adequate debt and contingent liability profile

In our view, Travis County's debt and contingent liability profile is adequate. Total governmental fund debt service is 13.1% of total governmental fund expenditures, and net direct debt is 102.7% of total governmental fund revenue. Approximately 69.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Much of Travis County's overall debt is due to overlapping taxing entities, particularly Austin and several area school districts, resulting in overall net debt at 4.4% of market value. We view the rapid amortization of the county's debt, with more than 69% of principal retired in 10 years and front-loaded nature, as a positive factor in our assessment of the county's debt and contingent liabilities. While the rapid schedule and front-loaded schedule result in high near-term debt service carrying charges, it allows the county capacity and flexibility to layer on additional debt without materially impacting the carrying charge.

The county held a bond election in November 2015 to request approximately $287.3 million for projects, including a new civil and family courts facility; however, the election was not successful. County officials are reviewing all options to address the aged facility but it is too preliminary to determine if they will re-approach the electorate within the next two years for this project. According to the county's capital plan, certificates of obligation are planned to be marketed annually as short-term debt with five-year maturities at $24 million per year, and $13.2 million in 2017 for the remaining cash flow requirements for a new medical examiner facility and administration building for the district attorney's office. We expect the county's debt and contingent liabilities profile to remain adequate during the next two years.

Travis County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.3% of total governmental fund expenditures in 2015. Of that amount, 5.8% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The county made 101% of its annual required pension contribution in 2015.

County employees participate in the Texas County and District Retirement System. The county's required pension contribution is its actuarially determined contribution (ADC), which is calculated annually using the entry age actuarial cost method. The actuarially determined required contribution rates for calendar years 2015, 2014, and 2013 were 13.56%, 13.67%, and 12.89%, respectively. The county has paid 100% of the ADC every year with the exception of calendar 2015, and has elected to continue contributions at a higher rate of 13.67%. In fiscal 2015, its pension ADC of $39.2 million was 5.1% of total governmental fund expenditures, which we consider modest. Actuarial assumptions include a discount rate of 8.1% and a 20-year closed period. We view the funded ratio as well funded as we estimate the plan fiduciary net position as a percent of the total pension liability at 93%. The county plans to continue fully funding the ADC for the next two years.

As of Oct. 1, 2014, Travis County's unfunded OPEB liability was estimated at $502.6 million. The county does not pre-fund this liability and county officials expect to continue to fund OPEB costs on a pay-as-you-go basis, with a continued emphasis on active management of its cost and benefit structure to minimize annual cost increases. In fiscal 2015, Travis County's other postemployment contributions were $9.9 million or 1.5% of governmental expenditures. Should the county elect to pre-fund its OPEB obligations, the annual required contribution is estimated at $55 million or 9.9% of fiscal 2015 total governmental expenditures.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects our view of Travis County's stable economic base, anchored by state government and higher education. The outlook also reflects our expectation that management will take the necessary steps to maintain the county's very strong budgetary flexibility including an available general fund balance in line with historical levels. We also do not expect significant change to the county's adequate debt profile, when considering the planned annual issuances under its current bond program. For these reasons we don't expect to change the rating in the next two years. Should the county's budgetary performance, flexibility, or economic characteristics materially weaken we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 7, 2016)

Ratings Detail (As Of July 7, 2016) (cont.)		
Travis Cnty st highway sys bnds (Limited Tax)		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty unltd tax certs of oblig (Limited Tax)		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty GO		

Ratings Detail (As Of July 7, 2016) (cont.)		
Long Term Rating	AAA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.