S&P Global Ratings

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Summary:

Travis County, Texas; General Obligation

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Credit Profile		
US$48.81 mil certs of oblig ser 2020 due 03/01/2040		
Long Term Rating	AAA/Stable	New
US$35.435 mil unltd tax rd bnds ser 2020 dtd 07/01/2020 due 03/01/2040		
Long Term Rating	AAA/Stable	New
US$19.685 mil perm imp bnds ser 2020 dtd 07/01/2020 due 03/01/2040		
Long Term Rating	AAA/Stable	New
US$5.125 mil ltd tax rfdg bnds ser 2020 dtd 07/01/2020 due 03/01/2030		
Long Term Rating	AAA/Stable	New
Travis Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Travis County, Texas' series 2020 certificates of obligation, series 2020 permanent improvement bonds, series 2020 unlimited-tax road bonds, and series 2020 limited-tax refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term ratings on the county's previously issued unlimited- and limited-tax debt. The outlook on all ratings is stable.

The certificates, permanent improvement bonds, and limited-tax bonds are each payable from the receipts of a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the county. Counties in Texas are limited to a maximum allowable ad valorem tax rate of 80 cents per $100 of assessed value (AV) for general fund, jury fund, road and bridge fund, and permanent improvement fund purposes, with the portion dedicated to debt service limited to 40 cents of the total 80 cents maximum tax rate. The county does not currently levy a jury fund and road and bridge fund tax. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019), we view the limited-tax pledge on par with the county's general creditworthiness. We do not notch off of the general creditworthiness rating because the ad valorem taxes are not collected from a narrower or distinctly different tax base and there are no limitations on the fungibility of the county's resources, which supports our view of Travis County's overall ability and willingness to pay debt service.

The certificates are additionally secured by and payable from a limited pledge of surplus revenues of the county's solid waste disposal system--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.

The bond proceeds will be used to fund various capital improvement projects in addition to a refunding for debt service savings.

Travis County's debt is 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), the county has a predominantly locally derived revenue base, with more than 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.

Credit overview

The 'AAA' rating reflects the strength of Travis County's large and diversified economic base that has sustained positive growth over the last several years. Long-term stability in the local economy has been supported by higher education and government employment, given the presence of the University of Texas and the state capital within the county. While the COVID-19 pandemic and associated business disruptions could moderate growth below prior trends, we believe that the county's economy and budget are well positioned to weather this near-term period of uncertainty. Several years of robust economic growth have bolstered the county's property tax receipts, which are the primary source of revenue, and a very strong framework of budget management and long-term planning should support stable operating performance over the near-to-medium term. Ongoing growth in the county necessitates the continued need for debt to maintain infrastructure and meet increasing service demands; however, we believe Travis County will continue to issue debt within the guidelines established in its debt policy to ensure that debt issuance remains commensurate with economic growth.

The rating reflects our view of the county's:

- 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;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash at 60.8% of total governmental fund expenditures and 5.6x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 10.9% of expenditures and net direct debt that is 131.2% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating and analysis incorporate our view regarding the health and safety risk posed by the COVID-19 pandemic, which we believe could pressure budgets in the short term. Overall, we consider the county's social risks in line with that of the sector. We also analyzed the county's environmental and governance risks relative to its credit factors, and we determined that both are in line with our view of the sector standard.

Stable Outlook

The stable outlook reflects our view that Travis County's diversified economic base is well positioned to weather this near-term recession caused by the COVID-19 pandemic. 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. Should the county's budgetary performance, flexibility, or economic characteristics materially weaken, we could consider lowering the rating.

Credit Opinion

Very strong economy

We consider the county's economy very strong. Travis County, with an estimated population of 1.3 million, 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 135% of the national level and per capita market value of $157,686. Overall, the county's market value grew by 8.8% over the past year to $205.7 billion in 2020. The county unemployment rate was 2.6% in 2019.

Our assessment reflects Travis County's strong property wealth and above-average incomes, in addition to the county's location within a diversified and expanding economic base. In addition, the underlying economy is anchored by stable industries including government employment and higher education, which we believe contribute to long-term stability. Over the short term, we expect that some of the county's economic indicators could soften in line with the contracting U.S. economy. For more information, please see our report titled, "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect. However, the county entered this period of uncertainty following several years of expansion and robust economic growth.

Travis County, which is home to the state capital of Austin, is located in central Texas. Government employment serves to anchor the county's economic base, with the state employing approximately 58,000 people followed by the City of Austin (15,800 employees) and the federal government (approximately 12,000). In addition, Austin is home to the University of Texas, which has 27,000 employees and maintains a total student enrollment of 51,000.

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. Industry tech leaders that maintain meaningful employment in Travis County include Apple, IBM Corp., Samsung Austin Semiconductor, and Dell Technologies (which is located in nearby Round Rock). We believe that the county's location and the availability of a highly skilled labor force should contribute to healthy employment growth over the near-to-medium term.

A long-term trend of stable residential and commercial development and private-sector investment has contributed to strong tax base growth. In the past five fiscal years, AV growth has averaged approximately 12% per year. In aggregate, the county's tax base increased by $88 billion or 74% since tax year 2014. The tax base is very diverse, with the 10 leading taxpayers accounting for only 2.9% of 2019 taxable values. According to preliminary values for tax year 2020, the county's taxable value is expected to increase approximately $13 billion or 5% from the previous year. Of the increase, approximately $6.2 billion is from new growth. However, the county anticipates a more moderate growth once appeals have been incorporated into the final certified number. While Travis County's growth trends could moderate somewhat during the COVID-19 driven recession, we believe the county's diverse economy and positive momentum before the pandemic should support its ability to recover without significant deterioration of the underlying economic fundamentals.

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.

The Travis County Commissioners' Court has adopted a comprehensive set of financial and budgeting policies. Highlights include: a minimum fund balance requirement for the general fund and debt service fund 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 court maintains a comprehensive debt management policy, which was recently reviewed and updated. It 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 the 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.

Adequate budgetary performance

Travis County's budgetary performance is adequate in our opinion. The county had operating surpluses of 2.1% of expenditures in the general fund and of 4.4% across all governmental funds in fiscal 2019. General fund operating results have been stable over the last three years, with a result of 4.0% in 2018 and 0.3% in 2017.

Travis County's budgetary performance has historically been strong as evidenced by a trend of modest operating surpluses driven by conservative budgeting and strong budget monitoring and oversight. Our assessment accounts for the risk that operating results could moderate from past trends given the cumulative impact of possible revenue softness in the near-term recession as well as limitations on property tax revenue growth following the 2019 legislative session.

The fiscal 2019 adopted budget for the general fund was $798.2 million, an increase of $49.1 million (6.6%) from the 2018 adopted budget. Consistent with historical trends, the county was able to exceed its conservative budget forecast to post a $32 million increase in fund balance, which includes $14.8 million in funds received from the sale of assets. Revenues across the board were collected in excess of budget and expenditures were 12% below budget, reflecting the county's conservative assumptions. Expenditure savings were tied to a combination of capital project rollovers and various departmental savings. The county's property tax collection rate remained strong at 99.4% during fiscal 2019. Property tax revenue makes up about 87% of fiscal 2020 budgeted general fund revenue.

The fiscal 2020 adopted budget for the general fund was $882.6 million, a 10.8% increase from the previous year. The county was largely able to fund the increase by electing to raise its property tax rate to the 8% rollback rate in anticipation of the legislative caps that go into effect in 2021. In recognition of the near-term impacts of an economic slowdown on the budget, the county implemented a hiring freeze while also exploring ways to reduce certain operating and capital costs. In addition, it elected to debt finance certain capital items that were previously included in the operating budget in an effort free up additional cash flow. While revenues are expected to fall short of initial projections, county officials believe that proactive expenditure reductions will support the maintenance of balanced results with a possible addition to fund balance in fiscal 2020.

Given the expected lingering effects of COVID-19 and the recession, Travis County is exploring various ways to reduce costs as it works toward a balanced budget for fiscal 2021. The tax rate remains an important aspect of these discussions, given the county's revenue mix and property tax revenue caps approved by the state legislature in 2019. The legislation, called the Texas Property Tax Reform and Transparency Act of 2019, limits the ability of certain local government units to increase maintenance and operations property tax revenues above 3.5% of the previous year's without voter approval. The previous formal threshold for potential citizen intervention on the setting of property tax rates, known as the roll-back rate, was 8%. The legislation does, however, contain a provision that permits local governments to exceed the 3.5% threshold in the event of a declaration of emergency by the state or U.S. government. While this provision does provide an additional level of flexibility for the near term, we acknowledge that the 3.5% voter approval could pose a challenge in the medium to long term.

Very strong budgetary flexibility

Travis County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 30% of operating expenditures, or $198.4 million.

The county has a history of conservative budgeting practices and has historically exceeded budgeted projections. Its formal available fund balance target is two months of regular operating expenditures.

The adopted budget for fiscal 2020 was balanced, and based on budget adjustments implemented to address the pandemic, the county expected to add to fund balance, further strengthening its fund balance reserves. Before fiscal 2020, Travis County reduced its tax rate for six consecutive years from more than 50 cents in fiscal 2013. In fiscal 2020, the tax rate was 36.93 cents. However, given the trend of very strong AV growth, the county has been able to reduce the tax rate without negatively affecting its primary source of revenue. Given its history of strong budgetary performance and absence of plans to reduce available reserves below the formal policy, we expect that 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 60.8% of total governmental fund expenditures and 5.6x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

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

Weak debt and contingent liability profile

In our view, Travis County's debt and contingent liability profile is weak. Total governmental fund debt service is 10.9% of total governmental fund expenditures, and net direct debt is 131.2% of total governmental fund revenue.

Travis County does not have any swaps or variable-rate debt. It has total outstanding bonded obligations, including the current issuance, of approximately $1.110 billion. Included in this amount are unlimited-tax GO bonds, as well as limited-tax GO bonds and certificates of obligation. In addition, much of the county's overall debt is due to overlapping taxing entities, particularly Austin and several area school districts, resulting in overall net debt at 3.9% of market value.

According to the county's capital plan, certificates of obligation will be issued annually for routine needs used for planning purposes on approved projects over the next five years. In a November 2017 bond election, voters authorized $185 million in GO debt for parks and transportation projects, $34 million of which will remain unissued following the sale of the series 2020 bonds. In total, based on its debt model, the county plans to issue an additional $158 million of tax-supported debt over the next two years.

Pension and other postemployment benefits highlights

Travis County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 8.0% of total governmental fund expenditures in 2019. Of that amount, 6.3% represented required contributions to pension obligations, and 1.8% represented OPEB payments. The county made 102% of its annual required pension contribution in 2019.

We do not view pension obligations as an immediate credit risk for the county. Given the actuarial basis for annual pension contributions and Travis County's strong funding discipline, we do not expect a significant near-term increase in pension costs that could weaken the county's budgetary performance.

The county participates in the following plans as of Sept. 30, 2019:

- The statewide Texas County & District Retirement System, which is a nontraditional, defined-benefit pension plan that provides retirement, disability, and death benefits for all full-time employees. The plan is 83.94% funded with a net pension liability equal to $300 million. Contributions are actuarially determined, and the county has recently contributed amounts in excess of the annual required costs. Plan contributions were sufficient to cover 95% of our minimum funding progress guideline, indicating some progress toward reducing the long-term liability. Actuarial assumptions include an 8% discount rate and 12.8-year closed amortization period.
- Travis County Medical Plan, which provides medical and prescription drug benefits to certain retirees. The county doesn't 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. The total OPEB liability was $870.4 million at fiscal year-end 2019. In 2019, benefit payments for OPEB were $14.3 million.

Strong institutional framework

The institutional framework scorefor Texas counties is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020S&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
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 8, 2020)		
Travis Cnty certs of oblig (ltd tax) ser 2011 dtd 04/01/2011 due 03/01/2012-2031		
Long Term Rating	AAA/Stable	Affirmed
Travis Cnty certs of oblig (Ltd Tax) ser 2010 dtd 05/01/2010 due 03/01/2011-2030		
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
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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	NR	
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

Ratings Detail (As Of June 8, 2020) (cont.)		
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