

Standard & Poor's Credit Research

Summary:

Caldwell County, Texas; General Obligation

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Credit Profile

US\$3.69 mil ltd tax rfdg bn ds ser 2019 dtd 08/29/2019 due 02/01/2029

Long Term Rating AA-/Stable New

Caldwell Cnty GO

Long Term Rating AA-/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' rating to Caldwell County, Texas' series 2019 limited-tax refunding bonds. At the same time, S&P Global affirmed its 'AA-' rating on the county's existing general obligation (GO) debt. The outlook is stable.

The bonds are payable from the county's ad valorem taxes, which are levied on all taxable property. Despite state statutory tax-rate limitations, we do not differentiate between the county's limited-tax debt rating and its general creditworthiness. That's because the ad valorem taxes are collected from a broad tax base and there are no restrictions on what the limited tax can be used for, which supports our view of the county's overall ability and willingness to pay debt service. State statutes limit the ad valorem tax rate for counties to 80 cents per \$100 of taxable assessed valuation (AV) for all purposes. In addition, the Texas attorney general will permit the allocation of 40 cents of the 80 cents maximum tax rate for ad valorem tax debt service. For fiscal 2019, the county's levy is below the maximum, at 77.52 cents per \$100 of AV, 6.5 cents of which is specifically dedicated to debt service.

The rating reflects the county's improving economic metrics that benefit from proximity to the rapidly growing Austin metropolitan statistical area (MSA). The rating also reflects the county's financial stability that is demonstrated through a long-term trend of strong surplus operating results, which have been achieved while effectively managing debt and capital needs.

Proceeds of the 2019 bonds will refund existing debt for debt services savings.

The rating reflects our opinion of the following credit factors:

- Adequate economy, with market value per capita of \$55,147 and projected per capita effective buying income at 71.3%, but that is benefitting from access to a broad and diverse MSA;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 56% of operating expenditures;

- Very strong liquidity, with total government available cash at 90.0% of total governmental fund expenditures and 15.9x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 5.7% of expenditures and net direct debt that is 72.2% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider the county's economy adequate. Caldwell County, with an estimated population of 41,764, is located in the Austin-Round Rock MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 71.3% of the national level and per capita market value of \$55,147. Overall, the county's market value grew by 11.0% over the past year to \$2.3 billion in 2019. The county unemployment rate was 3.6% in 2018.

Spanning an area of 547 square miles, Caldwell County is located directly south of Travis County and between Hays and Bastrop counties in south-central Texas. The county seat, Lockhart, is situated approximately 30 miles south of downtown Austin and 60 miles northeast of San Antonio; accordingly, county residents have easy access to leading employment centers throughout both MSAs. The local economy itself is predominately based in agriculture, light manufacturing, and fossil fuel production, and we consider the tax base very diverse, with the top 10 taxpayers accounting for 8.5% of total assessed value (AV) in fiscal 2019. AV increased 24% between fiscal 2016 and 2019, with growth rates accelerating each year, but averaging 7% annual growth. Management expects continued growth over the next few years, as economic development continues. Projects that are currently underway include a large industrial development, two residential subdivisions, and several commercial establishments.

Adequate management

We view the county's management as adequate, with standard financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas. Caldwell County management examines three years of historical trend data to project revenues and expenditures for the following fiscal year. Input from outside sources is also used in an attempt to anticipate any potential deviations from trends. The budget can be amended as needed throughout the fiscal year, and management provides monthly budget-to-actual reporting to the board. The county's investment policy complies with state statutes, and investment holdings and earnings are reported quarterly to the board. The county's formal reserve policy requires maintenance of available fund balance sufficient to cover 2.5 months (or 20.8%) of expenditures. The county typically meets and exceeds this reserve target. The county does not have a debt management policy, a capital improvement plan, or a long-term financial plan.

Strong budgetary performance

Caldwell County's budgetary performance is strong in our opinion. The county had operating surpluses of 13.5% of expenditures in the general fund and of 12.9% across all governmental funds in fiscal 2018. In assessing the county's budgetary performance, we made adjustments for annually recurring transfers out of the general fund to both the unit road and grant funds. The county has consistently maintained positive operating results in each of the past three audited fiscal years at the general fund and total governmental fund level, with surpluses ranging from 8% to 13% of

expenditures. The county adopted a balanced budget, after transfers for fiscal 2019. Based on actual revenue and expenditure performance fiscal-year-to-date, management expects to end the year with a fourth consecutive surplus, which will allow continued growth in reserves. Based on recent trends and a demonstrated track record of outperforming budget, we expect performance to remain strong during the two-year outlook period.

Very strong budgetary flexibility

Caldwell County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 56% of operating expenditures, or \$10.4 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. The county has consistently maintained very strong reserves in each of the past three audited years, building available fund balance from \$5.7 million in fiscal 2016 to \$10.4 million in fiscal 2018, amounts equal to 34% to 56% of general fund expenditures. The county's internal goal is to maintain reserve sufficient to cover at least 29% of expenditures, which typically meets and is currently exceeding. With no plans to draw on fund balance in 2019 or 2020, we expect flexibility to remain very strong throughout the outlook period.

Very strong liquidity

In our opinion, Caldwell County's liquidity is very strong, with total government available cash at 90.0% of total governmental fund expenditures and 15.9x governmental debt service in 2018. In our view, the county has strong access to external liquidity if necessary.

The county has demonstrated its access to external liquidity through its prior issuance of limited-tax certificates over the past decade. The county has historically maintained very strong cash balances, and based on our expectation for continued positive operating results, we do not believe its cash position will materially weaken. All current investments comply with state statutes and the county's internal investment policy. At fiscal year-end 2018, investments were held entirely in local government investment pools, with maturities of less than 60 days. We do not consider these relatively liquid investments to be aggressive. In addition, we have not identified exposure to any contingent liabilities that could threaten the county's liquidity, and we therefore expect its liquidity to remain very strong throughout the outlook period.

Adequate debt and contingent liability profile

In our view, Caldwell County's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.7% of total governmental fund expenditures, and net direct debt is 72.2% of total governmental fund revenue. Proceeds of the 2019 bonds will refinance the county's series 2007 and 2010 certificates for debt service savings. The county has no plans to issue additional new money debt at this time.

Caldwell County's pension contributions totaled 1.9% of total governmental fund expenditures in 2018. The county made its full annual required pension contribution in 2018. The county provides retirement, disability, and survivor benefits to all full-time employees through a statewide agent, multiple-employer, public employee, retirement system through the Texas County and District Retirement System. Pursuant to state law, employers participating in the system must pay 100% of their actuarially determined required contributions annually. Caldwell County reported a net pension asset as of Dec. 31, 2017 and a funded ratio--calculated as plan fiduciary net position as a percentage of total pension liability--of 103.7%. The county does not offer any other postemployment benefits.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects our view of the county's stable and improving economy within the broad and diverse Austin-Round Rock MSA, as well as its very strong flexibility and liquidity. We do not expect to change the rating within the two-year outlook period.

Upside scenario

We could raise the rating if the county's economic metrics improve to levels we consider comparable to higher rated peers and the county adopts and implements additional financial management policies and practices, especially related to long-term financial and capital planning.

Downside scenario

We could lower the rating if the county's financial performance deteriorates, leading to sustained and significant drawdowns in reserves.

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

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