Summary:

Caldwell County, Texas; General Obligation

Credit Profile		
US$5.815 mil comb tax and rev cert of oblig ser 2018 due 02/01/2038		
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 2018 combination tax and revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the county's general obligation (GO) debt outstanding. The outlook is stable.

The series 2018 certificates are payable from a direct and continuing ad valorem tax, levied within the limits prescribed by law, on all taxable property in the county. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018, on RatingsDirect), we do not differentiate between the county's limited-tax GO debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources. We understand that certificate proceeds will finance the purchase of election equipment and public vehicles, and will fund improvements to the county sheriff's office.

The 'AA-' rating reflects our assessment of the county's:

- Weak economy, with market value per capita of $50,269 and projected per capita effective buying income at 76.9% of the national level, but that is benefitting from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard 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 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 42% of operating expenditures;
- Very strong liquidity, with total government available cash at 32.9% of total governmental fund expenditures and 7.0x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 4.7% of expenditures and net direct debt that is 62.6% of total governmental fund revenue; and
- Strong institutional framework score.

Weak economy

We consider the county's economy weak. Caldwell County, with an estimated population of 41,287, 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 76.9% of the national level and per capita market value of $50,269. Overall, the county's market value grew by 7.3% over the past year to $2.1 billion in 2018. The county unemployment rate was 3.9% in 2017.

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 9.43% of total assessed value (AV) in fiscal 2018. The county's exposure to the fossil fuel industry, while a contributor to stable AV growth throughout the shale-fracturing boom, was responsible for a 2% AV decline from fiscal 2015 to 2016 in the midst of the global crude oil glut and corresponding price rout. This decline reverted in the following year, and the modest price recovery in mineral values has buoyed county AV ever since, growing 11% from 2016 to 2018. County officials expect this trend to continue in line with anticipated future residential and commercial development alike.

Adequate management

We view the county's management as adequate, with standard financial policies and practices under our FMA 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. Budget amendments are possible as needed, and while financial personnel monitor the budget on an ongoing basis, no formal reporting on the budget to the governing body is performed. The county maintains a formal investment policy in accordance with Texas statutes, and presents quarterly updates to the governing body. Additionally, the county's formal reserve policy requires the maintenance of an unassigned general fund balance equal to a minimum of 2.5 months (20.8%) of expenditures. The county does not currently perform any formal long-term financial or multiyear capital planning, nor has it adopted a formal debt management policy.

Strong budgetary performance

Caldwell County's budgetary performance is strong in our opinion. The county had operating surpluses of 8.9% of expenditures in the general fund and of 6.4% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2017 results in the near term.

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.

Caldwell County has maintained at least adequate budgetary performance in recent years, due in part to management's conservative practices, where year-end results regularly outperform planned break-even or deficit outcomes. Following modest general fund and total governmental drawdowns in fiscal 2015 owing to unreimbursed road-related grant expenditures and underperforming fines revenues, the county has finished with very strong surpluses in both years since. In fiscal 2017, the county budgeted for balanced operations in the general fund, but finished with a $1.6 million surplus after transfers due to an outperformance of revenues and expenditures by a combined $1.8 million. Underspending in all expenditure categories--most notably public safety and health and welfare--drove this result, while revenues finished $545,333 over projections despite taxes, licenses and permits, and intergovernmental revenues falling short of expectations. Taxes accounted for 78% of general fund revenues throughout the year, while intergovernmental revenues (6%) and fees of office (4.5%) represented the next largest revenue sources. While intergovernmental revenues and fees of office have varied somewhat in recent years, taxes have demonstrated steady growth, and county officials expect this to continue in line with expected future development and strengthening of the tax base.

The county budgeted for a small operating surplus in fiscal 2018, and officials report that year-to-date projections forecast another surplus of roughly $800,000, representing somewhat of a deterioration, in our view, from fiscal 2017's very strong result. Aside from additional hiring needs as the county continues to grow, officials have not at this time identified potential sources of budgetary strain in fiscal 2019 or beyond. Accordingly, we expect budgetary performance to remain strong in the near term.

Very strong budgetary flexibility

Caldwell County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 42% of operating expenditures, or $7.7 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 historically maintained very strong reserves in excess of its formal reserve policy of 2.5 months (20.8%) operating expenditures, and growing in each the past three fiscal years. Despite budgeting for balanced operations after transfers in fiscal 2017, the county finished the year by adding $1.95 million to available reserves. Year-to-date projections for fiscal 2018 indicate that the county may again grow unassigned fund balance by as much as $800,000, and management reports no plans to materially draw on reserves in the near term--instead planning to at least maintain current levels. Accordingly, we expect the county's budgetary flexibility to remain very strong over the next two years, at levels in excess of 30%.

Very strong liquidity

In our opinion, Caldwell County's liquidity is very strong, with total government available cash at 32.9% of total governmental fund expenditures and 7.0x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

Caldwell County has demonstrated strong external liquidity by its access to the market over the past two decades, hallmarked by numerous GO-backed bond issuances in recent years. It has historically maintained very strong cash balances, and based on our expectation for surplus operations in fiscal 2018, we do not believe its cash position will materially weaken in the near term. All of the county's investments comply with Texas statutes, as well as its internal investment policy. At fiscal year-end 2017, investments were held entirely in local government investment pools, which we do not view as 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 in the near term.

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 4.7% of total governmental fund expenditures, and net direct debt is 62.6% of total governmental fund revenue.

Following the issuance of the 2018 certificates, the county reports no future plans to issue additional debt at this time. It will amortize approximately 54% of total direct debt over the next 10 years, which we consider average.

Caldwell County's pension contributions totaled 1.4% of total governmental fund expenditures in 2017. The county made its full annual required pension contribution in 2017.

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. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, Caldwell County reported a net pension liability (as of Dec. 31, 2016) of $61,201, corresponding with a funded ratio--calculated as plan fiduciary net position as a percentage of total pension liability--of 99.6%. For additional details on GASB 67 and 68, see our report: "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect. The county does not offer 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. It also reflects our expectation that the county's debt profile will remain stable corresponding with a lack of future debt plans and average amortization. Consequently, we do not expect to change the rating within the two-year outlook period.

Upside scenario

We could raise the rating if economic expansion results in improved wealth and income indicators, compared to those of higher-rated peers; if financial management policies are strengthened; or if the county's overall debt profile improves while financial performance remains strong.

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

- 2017 Update Of Institutional Framework For U.S. Local Governments

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.