

Williamson County, Texas; General Obligation

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Williamson County, Texas; General Obligation

Credit Profile		
US\$35.44 mil Pass-Through toll rev & ltd tax bnds ser 2010 dtd 06/15/2010 due 02/15/2035		
<i>Long Term Rating</i>	AAA/Stable	New
Williamson Cnty GO ser 2009		
<i>Long Term Rating</i>	AAA/Stable	Upgraded
Williamson Cnty GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term and underlying rating (SPUR) to 'AAA' from 'AA+' on Williamson County, Texas' outstanding general obligation (GO) debt. At the same time, Standard & Poor's assigned its 'AAA' long-term rating, to the county's series 2010 pass-through toll revenue and limited tax bonds. The outlook is stable.

The raised rating is based on our view of the county's consistent strong economic expansion and its proven ability to manage growth over time while still maintaining strong finances.

The ratings reflect our view of the county's:

- Deep and diverse tax base, with access to the Austin metropolitan statistical area (MSA);
- Successful management of growth-related pressures; and
- Consistently strong financial management and strong performance.

Mitigating factors in our opinion include Williamson County's:

- High overall net debt levels; and
- Additional infrastructure needs (mainly roads) to meet ongoing growth pressures.

Officials will use bond proceeds to finance the construction of, and improvements to, US Highways 70 and 183, Farm to Market roads 1660, 2338 and 3405, and State Highway 29. The project is part of the pass-through toll program of the Texas Department of Transportation (TXDOT). While the city expects to receive revenues from its pass-through agreement with the department of transportation, the rating is based on the county's ad valorem tax pledge, within the limits prescribed by law, upon all taxable property within the county.

Williamson County, located in central Texas and encompassing approximately 1,104 square miles, has experienced explosive population and property tax base growth in the past five years, partly due to its close access to Austin, Texas ('AAA' GO debt rating) and the high-tech sector's expansion. Interstate Highway 35 transverses the center of the county, passing through the county seat of Georgetown ('AA+' GO debt rating) and the city of Round Rock ('AA' GO debt rating). In addition, this highway provides limited access roadways to Dallas and Fort Worth to the north and to Austin and San Antonio to the south. Population in the county is up 23% since 2004 to more than 410,686.

County median household income indicators are very strong in our opinion at 132% of the national average. Property wealth levels are above average in our view, as market value per capita is what we view as strong at \$76,239. The property tax base has increased by a cumulative 49% since fiscal 2005 to \$31.3 billion in fiscal 2010; this figure does not include an additional \$2.1 billion that is currently under review by the Williamson County Appraisal District. 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.

The county's financial performance and position remain sound in Standard & Poor's opinion. Since fiscal 1993, management has consistently met, or exceeded, the previous minimum general fund balance policy of maintaining reserves equal to 16% of total general fund expenditures. Management recently has changed this policy to be 30% of total general fund expenditures, and has met this requirement for the past five years. Due to conservative budgeting, the county ended fiscal 2009 with a general fund operating surplus of approximately \$3.2 million; this brought the unreserved general fund balance to \$51.1 million, or what we consider a very strong 46% of expenditures. The county expects that the general fund balance will increase in fiscal 2010 to by approximately \$1 million, well above the new minimum reserve requirement.

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 of the best practices we deem as critical to supporting credit quality and that 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.

We view overall net debt as a high \$7,301 per capita and a moderately high 9.6% of market value. Debt levels will likely remain pressured because Williamson County's cities and school districts will continue to issue debt to meet the rapidly growing population's needs. Carrying charges were high in our opinion at 24% of fiscal 2009 operating expenses; however, carrying charges have been consistently high, but level, during the past several years.

Amortization is fairly average, with approximately 46% of principal due to be retired in 10 years. Standard & Poor's believes management's willingness to fund only major priority projects, mainly roads, has allowed it to keep debt ratios fairly stable during the past seven years. The county indicates it 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 2010 bonds. The agreed-on reimbursement rate is 10 cents per vehicle mile with a guaranteed minimum payment of \$7,597,100 annually. The maximum annual reimbursement is \$15,194,200 with a not-to-exceed amount of \$151,942,000 during the course of the agreement. Standard & Poor's does not yet view this debt as self-supporting.

Outlook

The stable outlook reflects the county's deep, diverse, stable, and expanding economic base. The stable outlook also reflects our expectation that management will maintain its strong financial position while undertaking a significant capital program and that management will adhere to managing the overall direct debt position by maintaining annual debt service expenditures prudently.

Continued Strong Population And Tax Base Growth

Williamson County, north of Travis County, is part of the Austin MSA. Residents enjoy easy transportation access to diverse employment opportunities in Austin and within the county. Dell's headquarters is in Round Rock, Texas, within Williamson County. The county has experienced a rapid population increase; the county's 2010 population has grown to an estimated 410,686.

Total assessed value (AV) has grown by a rapid 49% since 2005 to more than \$31.3 billion in fiscal 2010. The tax base is very diverse with the 10 leading taxpayers, including Dell Computer Holdings LP, accounting for 3% of total AV. The rolling off of economic development tax abatements and the continued expansion of Dell Computers and of Del Webb's Sun City developments should assist in continuing to increase AV during the next few years. Total county employment has also grown to 214,546 jobs in 2010 from 207,073 in 2009. The county's unemployment rate is currently about 7.5%, which is below both the state and national rates.

FMA Is Strong Reflecting County's Policies

Williamson County's management practices are considered 'strong' under Standard & Poor's Financial Management Assessment (FMA). An FMA of 'strong' indicates that practices are strong, well embedded, and likely sustainable. The government maintains most of what we consider 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. Investment reports are sent to county commissioners monthly, and the county has a formal policy of maintaining 30% in reserves. In addition, county officials have implemented a real-time budget and financial operating system that allows for more timely and efficient tracking of the county's financial operations. The county also has a formalized debt management policy, which includes guidelines for county officials to closely evaluate and monitor debt issuance. The county has not entered into derivatives to hedge its GO debt outstanding.

Financial Reserves Are Expected To Remain Strong

Williamson County management estimates it will finish fiscal 2010 with a \$1 million general fund surplus, increasing reserves to roughly \$52 million. Officials have been able to offset lagging investment income by practicing conservative budgeting, including cutting expenditures such as not giving staff salary raises last year. Despite its significant capital needs and previous debt issuances, the county's tax rate has remained below 47.0 cents per \$100 of AV for the past five years. The total tax rate increased from 43.9 cents per \$100 of AV in fiscal 2009 to 46.0 cents per \$100 of AV in fiscal 2010; this is still well below the state-cap of 80.0 cents per \$100 of AV. The county's tax rate remains very competitive compared with neighboring counties.

Debt Levels Remain High But Stable

Williamson County officials believe they will need nearly \$600 million of bonds to address growth-driven road improvements and extensions in the long-range transportation plan and finance the county's share of right-of-way acquisition costs for state highways. The electorate authorized the issuance of \$350 million for road improvements

in November 2000. That authorization has been exhausted. The electorate again authorized the issuance of \$228 million in bonds to fund road improvements, thereby confirming the willingness to continue supporting county management's long range transportation plan. The county has approximately \$80 million in authorized, but unissued debt remaining and plans to issue this debt toward the end of 2010. At this time, the county has no plans to hold any additional bond elections.

At \$1,889 per capita and 2.1% of true value, the county's direct debt levels are among the highest of Texas counties, due to management's issuing close to \$600 million of debt during the past seven years to fund mainly road-related projects. However, while the debt levels are high, the county has successfully been able to keep both the per capita indicator and the percent of market value indicator constant during that period -- reflecting sound and prudent debt management practices. While the level of debt is expected to increase, management has indicated that there should be no significant increase in either of these indicators, given the increasing population and market value growth rates.

Pension And Other Post-Employment Benefit (OPEB) Liabilities

Williamson County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The county conducts an annual actuarial valuation to determine its contribution rate; the plan is funded by monthly contributions from the employee members and the county. Based on these actuarial valuations, the unfunded actuarial accrued liability (UAAL) of the retirement plan for fiscal 2009, was \$25.4 million. The county's annual required contribution (ARC) for fiscal 2009 was \$8.1 million, or only 3% of total governmental expenditures.

In addition to pension benefits, the county provides all retired employees with a medical insurance benefit plan. Eligible retirees are provided medical insurance benefits at a set premium rate equal to the county employees' rate and retirees are responsible for paying the premiums. The county stops insurance coverage on the retiree and any eligible dependents on the last day of the month when either the retiree reaches age 65, or the retiree fails to submit the required set premium rate. The county's ARC for fiscal 2009 was \$6.0 million, or approximately 2% of total governmental expenditures. The UAAL for the post employment medical plan as of the most recent actuarial valuation date (Oct. 1, 2008) was about \$36.5 million.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of June 18, 2010)		
Williamson Cnty GO ser 2000 (FGIC)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded
Williamson Cnty GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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