

Summary:

Travis County, Texas; General Obligation

Primary Credit Analyst:

Amahad K Brown, Dallas + 1 (214) 765 5876; amahad.brown@spglobal.com

Secondary Contact:

Andy A Hobbs, Dallas + 1 (972) 367 3345; Andy.Hobbs@spglobal.com

Table Of Contents

Rationale

Outlook

Related Research

Summary:

Travis County, Texas; General Obligation

Credit Profile		
US\$130.43 mil certs of oblig ser 2019B dtd 06/15/2019 due 03/01/2039		
Long Term Rating	AAA/Stable	New
US\$26.12 mil perm imp bnds ser 2019 dtd 06/01/2019 due 03/01/2039		
Long Term Rating	AAA/Stable	New
US\$14.55 mil unlted tax rd bnds ser 2019 dtd 06/15/2019 due 03/01/2039		
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 2019B certificates of obligation, series 2019 permanent improvement bonds, and series 2019 unlimited tax road bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term ratings on the county's previously issued unlimited-tax road bonds, limited-tax bonds, and certificates of obligation. The outlook on all ratings is stable.

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. Economic growth continues to bolster 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 within the county necessitates the continued need for debt to maintain infrastructure and meet increasing service demands; however, we believe the 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 certificates 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 Jan. 22, 2018), 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.

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.

The rating reflects our view of Travis 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 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 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 56.8% of total governmental fund expenditures and 4.6x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 12.4% of expenditures and net direct debt that is 138.3% of total governmental fund revenue; and
- Strong institutional framework score.

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, Texas MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 122% of the national level and per capita market value of \$148,397. Overall, the county's market value grew by 11.1% over the past year to \$189.0 billion in 2019. The county unemployment rate was 3.0% in 2017.

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 contributes to long-term stability.

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 roughly 58,000 people followed by the City of Austin (15,000 employees) and the federal government (approximately 12,000 employees). In addition, Austin is home to the University of Texas, which has 27,000 employees and maintains a total student enrollment of nearly 52,000.

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 \$82 billion or 77% since tax year 2013. The tax base is very diverse, with the 10 leading taxpayers accounting for only 3.11% of total taxable AV in fiscal 2019. For 2020, we anticipate AV growth to be in line with that of recent years due to continued growth in the commercial, office, retail, and residential sectors.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our Financial Management Assessment 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.

Strong budgetary performance

Travis County's budgetary performance is strong in our opinion. The county had operating surpluses of 4% of expenditures in the general fund and of 6.6% across all governmental funds in fiscal 2018.

Travis County's budgetary performance is strong as evidenced by a trend of modest operating surpluses driven by conservative budgeting and strong budget monitoring and oversight. Over the near term, we anticipate that the county's strong budgetary performance will continue, particularly given consistent revenue growth that has historically outpaced increases in the budget.

The fiscal 2018 adopted budget for the general fund was \$749 million, an increase of \$48 million (6.9%) compared with the 2017 adopted budget. The county budgets for use of reserves maintained in excess of its reserve policy and for nonrecurring capital outlays or one-time initiatives. However, consistent with previous years, audited results for fiscal 2018 reflect a surplus in the general fund driven by both positive revenue and expenditure variances. Fiscal 2018 general fund revenues exceeded the final budget by 2.6% primarily driven by stronger-than-budgeted performance in property tax receipts. General fund expenditures came in 13% below final budget due to lower encumbered expenditures than budgeted. The county's property tax collection rate remained strong at 99.5% during fiscal 2018. Property tax revenue makes up about 86% of fiscal 2019 budgeted general fund revenue.

The fiscal 2019 adopted budget for the general fund is \$798.2 million, an increase of \$49.1 million (6.6%) compared with the 2018 adopted budget. Growth in the budget is largely offset with additional property tax revenues, which will serve to support continued structural balance.

Very strong budgetary flexibility

Travis County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 27% of operating expenditures, or \$164.4 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 26% of expenditures in 2017 and 28% in 2016.

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

Despite the use of reserves budgeted in the fiscal 2019 budget, actual operating results have historically trended better than budgeted, reflected by an increase in the nominal level of reserves. Travis County has reduced its tax rate every year since fiscal 2013 to 35.42 cents per \$100 of AV for fiscal 2019 from 50.01 cents per \$100 of AV. However, given the trend of very strong assessed value growth, the county has been able to make reductions in the tax rate without negatively affecting its primary source of revenue. Given the county's history of strong budget performance and no plans to reduce available reserves below the formal policy, we anticipate 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 56.8% of total governmental fund expenditures and 4.6x governmental debt service in 2018. 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 contingent liabilities that could lead to an unexpected deterioration from its currently very strong levels.

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 12.4% of total governmental fund expenditures, and net direct debt is 138.3% of total governmental fund revenue.

Travis County does not have any swaps or variable-rate debt. The county maintains total outstanding bonded obligations, including the current issuance and component unit debt, of approximately \$1.096 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 3.8% 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, \$130 million of which remains unissued. In total, based on its debt model, the county plans to issue an additional \$364.1 million of tax-supported debt through 2021.

Travis County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.8% of total governmental fund expenditures in 2018. Of that amount, 6.3% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The county made 100% of its annual required pension contribution in 2018.

County employees participate in the Texas County and District Retirement System (TCDRS). The county's required pension contribution is its actuarially determined contribution (ADC). The county has historically paid 100% of the ADC, and recently, officials have elected to contribute amounts in excess of the ADC. The actuarially determined contribution rate for fiscal 2018 was 14.91%. In total, Travis County contributed \$46.9 million to the pension system in 2018. The county's net pension liability measured as of Dec. 31, 2017, was \$136.4 million, which was a decrease of \$90.3 million from the previous year's measured net pension liability. The plan's fiduciary net position as a percent of the total pension liability, is 92.18%.

Travis County provides medical and prescription drug benefits to certain retirees that elect continued coverage under the Travis County Medical Plan upon retirement. 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. In fiscal year 2018, the County implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and, therefore, restated fiscal year 2017. Based on the Oct. 1, 2017, actuarial valuation, the total OPEB liability was \$613.1 million at fiscal year-end 2018, a decrease of \$42 million from the previous fiscal year restated amount. In 2018, benefit payments for OPEB were \$11.4 million.

Strong institutional framework

The institutional framework score 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 Travis County's debt profile, when considering the planned annual issuances under its current bond program and the county's proactive management of its pension liabilities. 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 consider lowering the rating.

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

Ratings Detail (As Of May 23, 2019)		
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 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

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

Summary: Travis County, Texas; General Obligation

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.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.