Research Update:

Collin County, TX's $240.7 Million Improvement And Refunding Bonds And Notes Assigned 'AAA' Rating

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to Collin County, Texas' $232.7 million series 2025 limited-tax permanent improvement and refunding bonds and $8.0 million series 2025 tax notes.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the county's unlimited- and limited-tax general obligation (GO) debt.
- The outlook is stable.
- The rating reflects the application of our "Methodology For Rating U.S. Governments" criteria, Sept. 9, 2024, on RatingsDirect.

Rationale

Security

Revenue from the county's unlimited tax secures its unlimited-tax bonds outstanding. Revenue from a direct and continuing ad valorem tax, within the limits prescribed by law, secures the limited tax bonds, including the series 2025 bonds and tax notes. The maximum allowable tax rate for Texas counties is 80 cents per $100 of assessed value for all purposes with the portion dedicated to debt service limited to 40 cents.

In fiscal 2025, the county's total levy is 14.9 cents with 4.1 cents for debt service. We rate the limited-tax bonds on par with our view of the county's general creditworthiness because the property tax base supporting the obligations is coterminous with the county and because we see no unusual risk regarding the county's willingness to support the debt or the fungibility of resources.

Officials will use series 2025 bond proceeds to fund capital projects related to the county's court and detention facility, animal shelter, medical examiner's office, and road and park projects. A portion of bond proceeds will also refund series 2015 unlimited tax bonds for savings. Note proceeds will fund elevator modernization; generators; heating, ventilation, and air conditioning upgrades; and lock upgrades at the county jail.

Credit highlights

Collin County has a substantial and growing tax base as well as very strong finances and strong financial management practices. The county continues to experience significant population growth and local economic activity as a result of its favorable location within the Dallas-Fort Worth Metroplex. We expect assessed value growth to continue as a result of ongoing residential and commercial development, including major projects in McKinney, Frisco, Plano, and Anna that will add thousands of homes and new commercial value. The county is only about 40% developed and population is growing rapidly, with officials reporting that about 200 people move in every day.

The county has a history of solid finances; it maintains reserves well in excess of 50% of revenue, including transfers out, which we view as a credit positive and well in excess of the county's 120-day formal reserve policy. The fiscal 2024 surplus was due to conservative assumptions and salary savings as well as a larger-than-anticipated transfer in for improvements from investment interest.

Fiscal 2025 projections indicate at least break-even general fund operations. Officials balanced the budget, so we expect reserves will likely remain at least stable nominally, but reserves could decrease somewhat on a percentage basis depending on final operating revenue. In our opinion, finances will likely continue to benefit from a growing economy and conservative budget assumptions, which should allow the county to maintain very strong finances.

Despite strong growth in service-and-infrastructure demands, the debt profile is manageable. The county plans to issue over $200 million in additional debt next year, but does not plan to go back to voters for additional authorization until 2029 at the earliest.

The rating reflects our view of the county's:

- Growing, sizable tax base with access to the Dallas-Fort Worth Metroplex, with economic metrics generally in line with those of national peers.
- Strong financial management policies and practices, highlighted by robust long-term budget and capital forecasting, conservative budgeting, and formal investment and reserve policies. The county’s cyber security practices align with those of peers.
- Solid financial performance, supported by growing primary revenue and conservative budget assumptions, and projections that show the maintenance of very strong reserves during the next two fiscal years.
- Manageable debt profile despite ongoing growth-related infrastructure needs, combined with an overfunded pension plan and manageable other postemployment benefit obligations.
- For more information on our institutional framework assessment for Texas counties, see "Institutional Framework Assessment: Texas Local Governments," Sept. 9, 2024.

Environmental, social, and governance

We view environmental and governance factors as neutral in our credit rating analysis. We view the county's strong population growth during the past 20 years as a social opportunity because it provides underlying economic strength to support employment opportunities compared with areas of the nation experiencing population stagnation or loss.

Rating above the sovereign

Collin County's GO bonds are eligible to be rated above the sovereign because we think the county can maintain better credit characteristics than the nation in a stress scenario. (For further information, see our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," Nov. 19, 2013.) Under our criteria, U.S. local governments are considered moderately sensitive to country risk. The county's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the county's operations. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Collin County has considerable financial flexibility, as evident in the very high general fund balance as a percentage of expenditures; its primary revenue source is property taxes.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the county's tax base will continue to grow while it maintains solid financial performance and reserves and a manageable debt profile, supported by robust and well-embedded management practices.

Downside scenario

We could lower the rating if reserves were to decrease to levels no longer in line with the formal reserve policy or if economic or debt metrics were to weaken materially.

Collin County, Texas--Credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	1.35
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	1.75

Collin County, Texas--Key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita as % of U.S.	109	--	109	110
County PCPI as % of U.S.	124	--	124	124
Market value ($000s)	251,108,781	225,503,440	196,328,209	167,755,086
Market value per capita ($)	207,935	186,732	162,573	151,710
Top 10 taxpayers as % of taxable value	2.4	2.4	2.7	2.8
County unemployment rate (%)	3.8	3.8	3.6	3.2
Local median household EBI as % of U.S.	143	--	143	140
Local per capita EBI as % of U.S.	129	--	129	128
Local population	1,207,631	--	1,207,631	1,105,764

Collin County, Texas--Key credit metrics

	Most recent	2024	2023	2022
Economy				
Financial performance				
Operating fund revenue ($000s)	--	298,303	261,879	226,804
Operating fund expenditures ($000s)	--	267,394	256,226	236,421
Net transfers and other adjustments ($000s)	--	5,350	2,105	376
Operating result ($000s)	--	36,259	7,758	(9,241)
Operating result as % of revenue	--	12.2	3.0	(4.1)
Operating result three-year average %	--	3.7	3.7	5.8
Reserves and liquidity				
Available reserves as % of operating revenue	--	79.4	76.3	80.5
Available reserves ($000s)	--	236,886	199,846	182,578
Debt and liabilities				
Debt service cost as % of revenue	--	14.2	19.7	23.1
Net direct debt per capita ($)	881	699	599	492
Net direct debt ($000s)	1,064,240	843,655	723,601	544,574
Direct debt 10-year amortization (%)	51	55	--	--
Pension and OPEB cost as % of revenue	--	2	8	7
NPLs per capita ($)	--	--	--	--
Combined NPLs ($000s)	--	--	--	--

Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

Ratings List	
New Issue Ratings	
US$232.7 mil ltd tax perm imp and rfdg bnds ser 2025 dtd 07/01/2025 due 02/15/2045	
Long Term Rating	AAA/Stable
US$8.0 mil tax nts ser 2025 dtd 07/01/2025 due 02/15/2027	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Local Government	
Collin Cnty, TX Limited Tax General Operating Pledge	AAA/Stable
Collin Cnty, TX Unlimited Tax General Obligation	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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