S&P Global
Ratings

RatingsDirect®

Summary:

Collin County, Texas; General Obligation

Primary Credit Analyst:
Jim Tchou, New York (1) 212-438-3821; jim.tchou@spglobal.com

Secondary Contact:
Andy A Hobbs, Farmers Branch + 1 (972) 367 3345; Andy.Hobbs@spglobal.com

Table Of Contents

Summary:

Collin County, Texas; General Obligation

Credit Profile		
US$176.3 mil ltd tax permanent imp bnds ser 2020 dtd 06/15/2020 due 02/15/2040		
Long Term Rating	AAA/Stable	New
US$47.37 mil ltd tax rfdg bnds taxable ser 2020 dtd 06/15/2020 due 02/15/2032		
Long Term Rating	AAA/Stable	New
Collin Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Collin County, Texas' approximately $47.3 million series 2020 limited tax refunding bonds and to its approximately $176.3 million series 2020 limited tax permanent improvement bonds. 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 outstanding. The outlook is stable.

The county's unlimited tax levy secures the city's outstanding unlimited-tax bonds. The county's levy of a direct and continuing ad valorem tax, within the limits prescribed by law, secures the limited-tax bonds, which includes the series 2020 limited tax refunding bonds and the series 2020 limited tax permanent improvement bonds. The maximum allowable rate in Texas is 80 cents per $100 of assessed value for all purposes, with the portion dedicated to debt service limited to 40 cents. The county's fiscal 2020 levy is well below the maximum, at 17.5 cents, 5.2 cents of which is dedicated to debt service.

We rate the limited-tax bonds on par with our view of the county's general creditworthiness, as the tax base supporting the obligations is coterminous with the county, and we see no unusual risks regarding the county's willingness to support the debt or the fungibility of resources.

We understand management will use series 2020 limited tax refunding bond proceeds to refinance portions of the series 2011 limited tax permanent improvement bonds, series 2011 unlimited tax road bonds, and series 2012 unlimited tax road and refunding bonds for debt service savings. We also understand officials will use series 2020 limited tax permanent improvement bond proceeds on various road improvements and to acquire land for park and open space purposes.

Collin County's GO bonds are 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 (see "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect). 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 demonstrated by the very high fund general balance as a percentage of expenditures, as well as by very strong liquidity.

Credit overview

Collin County's favorable location in the Dallas-Fort Worth metropolitan statistical area (MSA) and ongoing growth in cities across the county, including Frisco, McKinney, and Plano, continue to drive its economic expansion, translating into healthy revenue growth. These favorable conditions, combined with very strong management practices, have allowed the county to accumulate very strong reserves despite increased cash funding of capital projects. Although economic growth is leading to increased infrastructure needs and the county will issue sizable debt in the next few years, we believe internal policies and fairly rapid amortization, combined with conservative forecasting, will support the county in managing its debt burden.

We imagine challenges associated with COVID-19 and the related recession could pressure the county's budgets, as it will most local governments, during the next one to two years. (For further information, please see "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions," published April 2, 2020, on RatingsDirect.) In line with our view of the ongoing economic contraction, we expect fees and charges for services, along with both residential and non-residential construction, to lag historical performance. (For further information, please see "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020.) We, however, do not expect it to have an effect on Collin County's ability to maintain strong finances during the next few fiscal years due to its very strong cash and reserves.

Management indicates it will continue to monitor budget-to-actual performance closely and make additional adjustments as necessary. We expect budgetary performance will likely remain relatively stable despite the intention to draw down some of the county's sizable reserves on large one-time capital needs. Therefore, we do not expect to change our rating during the next few years. Although our outlook is generally for two years, we recognize the potential for downside risk exists because of COVID-19 and the related recession during the next six to 12 months.

The rating also reflects our opinion of the county's:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund but break-even operating results at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 77% of operating expenditures;
- Very strong liquidity, with total government available cash at 133.6% of total governmental fund expenditures and 7.2x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability profile, with debt service carrying charges at 18.7% of expenditures and net direct debt that is 150.0% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We have analyzed the county's environmental factors, including health and safety risks posed by COVID-19, coupled with social and governance risks relative to the economy; financial management; budgetary performance; and budgetary flexibility, as well as its debt and liability profile, and determined all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating in the unlikely event of a material reduction in the county's budgetary performance or a weakening of the county's key economic indicators.

Credit Opinion

Very strong economy

We consider the county's economy very strong. Collin County, with an estimated population of 983,351, is located in the Dallas-Fort Worth-Arlington, TX MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 151% of the national level and per capita market value of $152,166. Overall, the county's market value grew by 8.1% over the past year, to $149.6 billion in fiscal 2020. The county unemployment rate was 3.1% in 2019. In our view, county unemployment will likely weaken in 2020 as a result of the COVID-19-related recession.

Collin County is located in northeast Texas, about 15 miles from downtown Dallas. The county encompasses 836 square miles and includes the cities of Plano, McKinney (the county seat), Allen, Frisco, and Wylie. The economic base consists of various sectors, including manufacturing, computer technology, electronics, oil and gas research, and agriculture. Major industries with headquarters or divisions located within the county include petroleum research, telecommunications, computer technology, electronics, retail, food, and insurance institutions. Major employers in the county include:

- Bank of America Home Loans (10,347 employees),
- HP Enterprise Svc LLC (10,000),
- State Farm Insurance Corporate Office (8,700),
- JPMorgan Chase (6,000), and
- Liberty Mutual Insurance Company (4,100).

The county continues to experience rapid population and tax base growth. Ongoing commercial and industrial developments attract residents and contribute to strong demand for single- and multifamily housing. Management conservatively estimates property values will increase 4.1% for the next tax year, with new construction being a considerable contributor. Due to major corporate construction projects recently completed, planned and currently underway, we anticipate the county's tax base to continue to grow, though possibly at a slower pace because of

COVID-19's drag on economic activity. Given the current uncertainty around the duration of COVID-19 and the potential economic impact on both the local and national levels, we recognize the potential for downside risk.

Some of the major business activity that has been occurring includes the Toyota North American Headquarters (on the Collin-Denton County line), the Ford Center at the Star in Frisco (Dallas Cowboy World Headquarters), Legacy West, Frisco Station, The Gate, Wade Park, JPMorgan Chase, and The Gates of Prosper. The Professional Golf Association (PGA) of America announced they will also be coming to the county.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well-embedded, and likely sustainable.

Strengths of the assessment, in our opinion, include:

- Conservative revenue and expenditure assumptions in the budgeting process using five to 10 years of historical analysis and tax roll information from the county appraisal district;
- Strong oversight of budget-to-actual results during the year, with monthly budget-to-actual reports provided to the commission;
- A long-term financial plan and capital improvement plan that is annually updated in the budget book with a five-year horizon;
- A formal investment policy, with updates provided to the commissioners' court quarterly; and
- A formal reserve policy with a target of maintaining at least four months' worth of operations in reserves.

The county lacks a formal debt management policy, but has remained compliant with state statutes that limit the county's debt to not exceed one-fourth of the county's real assessed value. Informally, the county limits the debt service tax rate to 5.5 cents. The tax rate cap is reflected in fiscal projections, including anticipated debt issuances.

Adequate budgetary performance

Collin County's budgetary performance is adequate, in our opinion. The county had slight deficit operating results in the general fund of 0.7% of expenditures, but a balanced result across all governmental funds of 0.4% in fiscal 2019.

In assessing budgetary performance, we adjusted for what we view as annually recurring transfers into and from the general fund and one-time capital project expenditures across total governmental funds, with the use of debt proceeds.

The county has a history of solid budgetary performance largely due to conservative management. Our forward-looking opinion of adequate budgetary performance reflects uncertainty concerning the effect of COVID-19 and the related recession, as well as their duration, on the county.

Collin County relies primarily on property taxes for operations, which somewhat offsets concerns with the county's revenue base during the current recessionary period, since there is not a sales tax component to the revenue mix. In fiscal 2019, property taxes accounted for 80% of general fund revenues, followed by fees and charges for services at 10%. Property tax collections remain healthy, with annual collections between 99% and 101% for the past five years.

For fiscal years 2020 and 2021, we expect management will gradually reduce the county's available reserves, given the large accumulated general fund balance, through planned spending for permanent capital improvements. To date, officials report the county has been able to use some federal funds to replace equipment and purchase new software.

Given Collin County's historical trend of conservative budgeting, with expenditures coming in under budget, as well as continued taxable value growth, we expect the county's budgetary performance to remain at least adequate, despite budgeted spending of reserves. We understand the use of excess available fund balance will be driven by the size of current reserves and any changes to expenditures as a result of the COVID-related recession.

Very strong budgetary flexibility

Collin County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 77% of operating expenditures, or $170.2 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.

Management has a consistently strong track record of maintaining reserves above 50% of expenditures since fiscal 1999. With the county having a formal reserve policy with a target of maintaining at least four months' worth of operations in reserves, the commissioners' court would like to use reserves in excess of its policy level to finance some large permanent capital improvements. Officials, however, are waiting to see what potential effect COVID-19 will have on the budget before committing to capital spending. We expect Collin County's budgetary flexibility will likely remain very strong throughout the two-year outlook, supported by its formal reserve policy.

Very strong liquidity

In our opinion, Collin County's liquidity is very strong, with total government available cash at 133.6% of total governmental fund expenditures and 7.2x governmental debt service in 2019. In our view, the county has exceptional access to external liquidity, if necessary.

Collin County demonstrates exceptional access to external liquidity with its access to the debt market during the past 15 years, including the issuance of various tax-supported obligations. All of its investments comply with Texas statutes and the county's internal investment policy. The county's investments are not aggressive, in our view. As of April 30, 2020, the county's investments included local government investment pools, U.S. agency securities, certificates of deposit, municipal bonds, and money market funds, none of which we consider aggressive. Collin County has no contingent liabilities that could lead to an unexpected deterioration from very strong levels. Thus, we do not believe its cash position will worsen over the next few years.

Very weak debt and contingent liability profile

In our view, Collin County's debt and contingent liability profile is very weak. Total governmental fund debt service is 18.7% of total governmental fund expenditures and net direct debt is 150.0% of total governmental fund revenue.

Total direct debt is approximately $512 million. Overall net debt equals 5.9% of market value. We understand officials plan to sell $187 million and $105 million in authorized but unissued bonds, mainly for road improvements, in fiscal years 2022 and 2023, respectively. As a result, we expect the county's debt profile to remain very weak in the next few years, although our assessment could improve somewhat if the direct debt scheduled to be repaid within 10 years was over 65%, which we view as a positive credit factor.

Collin County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled

2.6% of total governmental fund expenditures in fiscal 2019. The county made 113% of its annual required pension contribution in fiscal 2019.

We do not view pension liabilities as an immediate credit risk for Collin County. The county participates in the Texas County & District Retirement System (TCDRS), a statewide, state-administered, defined-benefit pension plan. We believe the pension plan is well-funded and costs remain manageable. The county does not offer any OPEB to retirees.

The county participates in the following plan as of Dec. 31, 2018 (latest measurement date):

- TCDRS, 95.7% funded with a net pension liability equal to $23.2 million. The county's required pension contribution is actuarially determined and calculated at the state level based on an actuarial study, and the county has historically fully funded its annual required costs. Actuarial assumptions include an 8.1% discount rate, which can cause contribution volatility.

The county's postemployment benefit plan is a single-employer, defined-benefit plan. Collin County offers health benefits at actuarial cost with no supplements. The applicable coverage amount applies to both retiree and the retiree's spouse when they reach age 65 and is available only if the retiree is not covered under an insurance policy other than Medicare. Spousal coverage is only available if the spouse was on the county's plan prior to the employee's retirement from the county. County coverage is secondary to eligibility for Medicare coverage. No postemployment liability exists, since retirees are paying the full cost of this benefit.

In previous years, the county voluntarily participated in the Texas County & District Group Term Life Fund. Collin County ended this participation as of Dec. 31, 2018. As a result, at the end of fiscal 2019 the county no longer had a liability for OPEB.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of June 15, 2020)		
Collin Cnty ltd tax perm imp bnds ser 2011 dtd 05/15/2011 due 02/15/2012-2031		
Long Term Rating	AAA/Stable	Affirmed
Collin Cnty ltd tax perm imp bnds sr ser 2013A dtd 06/01/2013 due 02/15/2014-2028 2033		
Long Term Rating	AAA/Stable	Affirmed
Collin Cnty ltd tax rfdg and imp bnds ser 2014 dtd 06/15/2014 due 02/15/2034		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of June 15, 2020) (cont.)		
Collin Cnty ltd tax rfdg and perm imp bnds ser 2012 dtd 05/01/2012 due 02/15/2013-2025 2032		
Long Term Rating	AAA/Stable	Affirmed
Collin Cnty ltd tax rfdg bnds taxable sr ser 2013 dtd 06/01/2013 due 02/15/2014-2025		
Long Term Rating	AAA/Stable	Affirmed
Collin Cnty ltd tax rfdg perm imp bnds		
Long Term Rating	AAA/Stable	Affirmed
Collin Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Collin Cnty Ltd Tax Rfdg and Imp Bnds		
Long Term Rating	AAA/Stable	Affirmed
Collin Cnty US$30.080mil ltd tax rfdg & perm imp bnds, ser 2009A dtd 08/15/2009 due 02/15/2010-2029		
Long Term Rating	AAA/Stable	Affirmed
Collin Cnty GO		
Long Term Rating	AAA/Stable	Affirmed