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Summary:
Collin County, Texas; General Obligation

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Summary:

Collin County, Texas; General Obligation

Credit Profile		
US$156.455 mil ltd tax perm imp bnds ser 2019 dtd 02/15/2019 due 02/15/2039		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Collin County, Texas' series 2019 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.

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 Collin County's economic expansion, translating into healthy revenue growth. These favorable conditions, combined with very strong management practices, have allowed the county to post consecutive general fund surpluses and accumulate extremely 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 allow Collin County to maintain a manageable debt profile.

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.

The county's unlimited tax levy secures the 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. 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 2019 levy is well below the maximum, at 18.1 cents, 5.4 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.

The county will use bond proceeds to fund road projects and various other capital projects, including roads as well as parks and jail improvements.

The 'AAA' rating reflects our assessment of Collin 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 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 101% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.9x total governmental fund expenditures and 8.6x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges at 22.0% of expenditures and net direct debt that is 149.4% of total governmental fund revenue, but rapid amortization, with 69.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Collin County, with an estimated population of 957,988, is located in the Dallas-Fort Worth-Arlington MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 156% of the national level and per capita market value of $144,498. Overall, the county's market value grew by 11.6% over the past year to $138.4 billion in 2019. The county unemployment rate was 3.4% in 2017.

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, Allen, Frisco, and Wylie.

The economic base consists of manufacturing, telecommunication, health care, computer technology, electronics, oil and gas research, and agriculture, and the county is home to several national headquarters.

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. In 2018, 9,800 new housing permits were issued and additions to the tax base included 8.8 million square feet of apartments, an increase of about 5% from the prior year, and 20 million square feet of commercial space.

Officials expect the growth to continue at a similar pace over the next few years given new and ongoing projects, such as the Star in Frisco, and the State Farm headquarters. In addition, the Toyota headquarters, the majority of which is located in Denton County, contribute to significant growth in Collin County, including new hotels.

Most recent developments include the PGA announcement that it will relocate its headquarters to Frisco from Florida. The PGA will anchor a 600-acre mixed-use development that will include a hotel, convention center, and retail space as well as two public golf courses and practice facilities. The golf courses are expected to open in 2022. The hotel, convention center, and other facilities are expected to open within six months of that date. The site is expected to host several professional men's and women's golf events.

Given ongoing and expected development, we anticipate the county's tax base to continue to grow and its economic metrics to remain very strong.

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 our view that 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 to maintain 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 not to 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.

Strong budgetary performance

Collin County's budgetary performance is strong, in our opinion. The county had operating surpluses of 12.6% of expenditures in the general fund and of 11.3% across all governmental funds in fiscal 2017. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat in the near term.

In calculating the county's budgetary performance, we have adjusted for recurring transfers out of the general fund to the courthouse security fund (about $350,000 each year) and nonrecurring expenditures, such as the spending-down of bond proceeds. Net of those adjustments, the county has had stable financial performance and has demonstrated a trend of operational balance.

The county's general fund and total governmental fund revenue are derived primarily from property tax collections, which accounted for 84% and 76% of general fund and total governmental funds revenue, respectively. Property tax collections remain healthy, with annual collections exceeding 100% for the past five years.

The fiscal 2017 budget projected a nearly 15% ($33.6 million) general fund draw as a result of $40 million in capital expenditures. The commissioners court authorized the use of reserves over the span of several years given the large accumulated general fund balance. However, the year ended with a surplus, driven by actual revenue exceeding budget by 4.3% ($8.2 million) and expenditure savings of 21% ($47.4 million). The county spent $12.5 million of the $40.0 million budgeted for capital outlay. The remainder of savings was realized in other line items, the biggest ($10.9 million) in general administration costs.

Preliminary fiscal 2018 results indicate a 2.6% general fund surplus, exclusive of proceeds from an asset sale and including transfers out. The county was able to post the surplus despite $21 million spent on capital. These results are in line with the county's historical performance, which officials attribute to conservative budgeting practices.

The adopted fiscal 2019 general fund budget calls for a deficit of $5.8 million (2.8%). However, 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 strong despite the budgeted deficits.

Very strong budgetary flexibility

Collin County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 101% of operating expenditures, or $178.2 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.

Given the current and historical reserves, we don't anticipate that the county's budgetary flexibility will weaken despite planned draws for capital. We expect that the county will maintain available fund balance above its target and in excess of 30% of expenditures.

Very strong liquidity

In our opinion, Collin County's liquidity is very strong, with total government available cash at 1.9x total governmental fund expenditures and 8.6x governmental debt service in 2017. In our view, the county has exceptional access to external liquidity if necessary, supported by its regular issuance of 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 Sept. 30, 2017, the county's investments included local government investment pools, U.S. government securities, and certificates of deposit, none of which we consider aggressive.

Collin County has no contingent liabilities that could lead to an unexpected deterioration from very strong levels. The county has privately placed its series 2018 tax note with an outstanding par of $18.1 million, or 4% of the county's total direct debt. Legal provisions do not include permissive covenants that could pressure the county's liquidity. Thus, we do not believe its cash position will worsen.

Weak debt and contingent liability profile

In our view, Collin County's debt and contingent liability profile is weak. Total governmental fund debt service is 22.0% of total governmental fund expenditures, and net direct debt is 149.4% of total governmental fund revenue. Approximately 69.3% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

In November 2018, voters approved $750 million in bond projects, of which $740 million is for roads and $10 million is for parks.

The county is issuing $110 million of the 2018 authorization. $108 million will fund road projects and the remaining $2 million will be used for park improvements.

About $45.8 million of the current issuance is for jail infrastructure improvements and represents the remainder of bonds authorized by voters in 2007.

The county plans on issuing the remaining 2018 authorization through fiscal 2023, in annual tranches ranging from about $115 million to $200 million. While the additional debt plans are sizable, the county projects no impact in the debt service tax rate given the significant double-digit annual tax base growth in recent years. The tax rate analysis assumptions are more conservative, with 4% annual tax base growth for fiscal years 2020 through 2026.

Collin County's pension contributions totaled 2% of total governmental fund expenditures in 2017. The county made 140% of its annual required pension contribution.

The county participates in the Texas County and District Retirement System, which is administered by the State of Texas. Collin County's required pension contribution is calculated at the state level based on an actuary study. Based on the plan's 8.1% discount rate, the county recorded a net pension asset of $831,851, measured as of Dec. 31, 2016. However, the discount rate is well above national average and we view it as optimistic. Lowering the discount rate to 7.1% would result in a net pension liability of approximately $63 million.

The county has adopted a policy to fund annual contributions at 8% of covered payroll on an annual basis regardless of whether that is above or below the required contribution. Should required contributions be higher than the 8% adopted by the county, the commissioners court has agreed to reduce future benefits.

The county offers health care benefits for retirees and their spouses, but retirees must cover the full cost of participation. The county does not supplement the plan and has no long-term liability associated with the plan.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects our view of Collin County's very strong budgetary flexibility and liquidity, which is supported by very strong management. The stable outlook also reflects our expectation that the county will maintain very strong reserves despite planned capital outlays and that, despite significant additional debt plans, the county will maintain its debt profile given its internal policy that limits its debt service tax rate. We do not expect to change the rating during the two-year outlook period because we believe that the county will maintain very strong reserves and that the county's economy will continue to prosper given its location in the Dallas-Fort Worth MSA.

Although we do not expect to change the ratings within the two-year outlook horizon, a material reduction in the county's budgetary performance or a weakening of the key economic indicators could place pressure on the ratings.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 11, 2019)		
Collin Cnty ltd tax perm imp bnds ser 2011 dtd 05/15/2011 due 02/15/2012-2031		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of February 11, 2019) (cont.)		
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 perm imp bnds (Build America Bnds - Direct Payment) ser 2009B dtd 09/29/2009 due 02/15/2019 2029		
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
Collin Cnty ltd tax rfdg and perm imp bnds ser 2008 dtd 06/01/2008 due 02/15/2009-2028		
Long Term Rating	AAA/Stable	Affirmed
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 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
Collin Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

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