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Ratings

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Summary:

Collin County, Texas; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$102.495 mil ltd tax perm imp and rfdg bnds ser 2021 dtd 06/15/2021 due 02/15/2041		
Long Term Rating	AAA/Stable	New
US$29.01 mil ltd tax rfdg bnds taxable ser 2021 dtd 06/15/2021 due 02/15/2033		
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 $29 million taxable series 2021 limited tax refunding bonds and to its $102.5 million series 2021 limited tax permanent improvement and refunding 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 county's unlimited-tax bonds outstanding. 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 2021 bonds. The maximum allowable tax rate in Texas is 80 cents per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to 40 cents. The county's fiscal 2021 levy is well below the maximum, at 17.25 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 the county will use the taxable series 2021 limited tax refunding bond proceeds to refinance portions of the series 2012 limited tax refunding and improvement bonds, series 2013A limited tax permanent improvement and refunding bonds, and series 2013A unlimited tax road and refunding bonds for debt service savings. We also understand officials will use the series 2021 limited tax permanent improvement and refunding bond proceeds on various road improvements and to acquire land for park and open space purposes, as well as refinancing series 2009A unlimited tax and refunding bonds for savings.

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). 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 percent 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 are continuing to drive economic expansion, translating into healthy revenue growth but also driving sizable capital needs. 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 the economic growth is leading to increased infrastructure needs that will lead to sizable debt issuance over the next several years, we believe internal policies and fairly rapid amortization, combined with conservative forecasting, will support the county in managing its debt burden.

The rating further 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;
- Strong budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 81% of operating expenditures;
- Very strong liquidity, with total government available cash at 118.4% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity that we consider exceptional;
- Very weak debt and contingent liability profile, with debt service carrying charges at 18.2% of expenditures and net direct debt that is 118.5% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We have assessed the county's environmental factors and governance risks relative to the economy, financial management, fiscal performance, as well as its debt and liability profile, and determined that all are in line with our view of the sector standard. We view the county's strong population growth over the past 20 years as a social opportunity, as it provides underlying economic strength to drive employment opportunities when compared with areas of the country experiencing population stagnation or loss.

Stable Outlook

Downside scenario

We could lower the rating in the unlikely event of a material reduction in the county's budgetary performance leading to reserves sustained at a level below its formal policy 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 1 million, is in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 149% of the national level and per capita market value of $149,873. Overall, the county's market value grew by 5.0% over the past year to $157.1 billion in 2021. The county unemployment rate was 6.3% in 2020.

Collin County is 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, with the 2020 U.S. Census expected to show a population of 1.1 million residents. Ongoing commercial and industrial developments attract residents and contribute to strong demand for single- and multifamily housing. Management reports that preliminary property values for fiscal 2022 show an approximate 5% increase, largely due to new construction. County officials report that there are several new residential subdivisions that have been announced, featuring more than 1,500 homes each, as well as multi-family projects that are ongoing. While the growth continued during the pandemic, officials report that commercial growth slowed. Despite this, we expect growth to continue near historical rates over the coming years.

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.

Strong budgetary performance

Collin County's budgetary performance is strong, in our opinion. The county had operating surpluses of 9.8% of expenditures in the general fund and 5.6% across all governmental funds in fiscal 2020. While we expect Collin County to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

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 and fiscal assumptions. Despite uncertainties posed by the onset of the pandemic, the county was able to realize a very strong operating surplus in fiscal 2020 largely because property taxes compose the largest revenue source, thus limiting volatility in collections. In fiscal 2020, property taxes accounted for 83% of general fund revenues, followed by fees and charges for services at 10%. The larger-than-normal surplus was attributable to a large drop in capital spending, as well as lower operating expenses due to the county's transition to remote working for part of the year.

For fiscal 2021 the county was able to adopt a balanced budget. Approximately $30 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funds (received in 2020) were incorporated into the budget, much of which the county has invested into cybersecurity infrastructure improvements. In addition, the county expects to receive $201 million in American Rescue Plan (ARP) Act funds, half of which has already been received. The county is currently evaluating how it will use the stimulus funds, but expect that it will be used for several sizable capital projects over the coming years. Given the active management of the county's budget, combined with the influx of federal funding, we believe that the county's budgetary performance will remain strong.

Very strong budgetary flexibility

Collin County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 81% of operating expenditures, or $161.4 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 county's coffers now exceed 75% of expenditures. While the commissioners court might use reserves in excess of the formal minimum for non-recurring purposes, we expect that reserves will remain very strong and above the county's policy level.

Very strong liquidity

In our opinion, Collin County's liquidity is very strong, with total government available cash at 118.4% of total governmental fund expenditures and 6.5x governmental debt service in 2020. 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 its investments comply with Texas statutes and the county's internal investment policy. The county's investments are not aggressive, in our view. Its investments include 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. Therefore, we do not believe its cash position will weaken 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 18.2% of total governmental fund expenditures, and net direct debt is 118.5% of total governmental fund revenue.

Following this issuance, the county's total direct debt is approximately $526 million. Overall net debt equals 5.7% of market value, reflecting the rapid population growth throughout the county and the infrastructure needs spurred by the growth, however we note that the county amortizes its debt over 20 years, which we view as a positive factor. We understand officials plan to sell their remaining authorized bonds over the next two years, amounting to approximately $352 million. 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.

Pension and other postemployment benefits liabilities

We do not view pension liabilities as an immediate credit risk for Collin County, as the pension plan is over-funded, and the county does not subsidize other postemployment benefits (OPEB) costs.

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

- Texas County & District Retirement System (TCDRS), a multiple-employer agent plan: 105.6% funded with a net pension asset equal to $32.5 million.

The county's pension plan has historically remained well funded, largely due to the county's practice of contributing in excess of its actuarially determined contribution to ensure fully funded status. Collin County's combined required pension and actual OPEB contributions totaled 2.3% of total governmental fund expenditures in 2020. The county made 282% of its required pension contribution in 2020. Given this is an agent plan, assets are jointly managed. The plan uses certain assumptions that could increase contribution volatility, including an 8.0% discount rate, although there are offsetting factors. For more information, see "Pension Spotlight: Texas" published on RatingsDirect Feb. 25, 2020. Despite the aggressive discount rate, we don't anticipate material deterioration of plan funding levels or discipline.

While the county offers postemployment retirement benefits, as part of a single-employer plan, the county charges participants for the full cost of 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.

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
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 16, 2021)		
Collin Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
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Long Term Rating	AAA/Stable	Affirmed
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Long Term Rating	AAA/Stable	Affirmed
Collin 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 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.