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Ratings

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Summary:
Randall County, Texas; General Obligation

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Summary:

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Credit Profile		
US$8.2 mil comb tax and ltd pledge rev certs of oblig ser 2018 dtd 05/01/2018 due 02/01/2028		
Long Term Rating	AA/Stable	New
Randall Cnty certs of oblig ser 2016 dtd 08/01/2016 due 09/30/2036		
Long Term Rating	AA/Stable	Affirmed
Randall Cnty GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating to Randall County, Texas' series 2018 certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA' rating on the county's existing general obligation (GO) debt. The outlook is stable.

The certificates are payable from an ad valorem tax levied on all taxable property in the county, within the limits prescribed by law. The maximum allowable ad valorem tax rate for Texas counties is 80 cents per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to 40 cents. Randall County's levy is well below the maximum at 41.473 cents per $100 of AV, 4.134 cents of which is dedicated to debt service. Surplus net revenues of the county's library system, in an amount not to exceed $1,000, provide additional security for the certificates. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018, on RatingsDirect, we do not differentiate between the county's limited-tax general obligation debt and its general creditworthiness.

Proceeds of the 2018 certificates will purchase a new upgraded radio communications system that will be used by county departments that are first responders in emergency situations such as the Sheriff's Office, Fire and Rescue Department, Emergency Services Unit, Juvenile Probation Department, and Road and Bridge Department.

The rating reflects our opinion of the following credit characteristics of the county:

- Adequate economy, with market value per capita of $73,310, and projected per capita effective buying income at 112% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology (FMA);
- 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 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 36.5% of total governmental fund expenditures and

4.3x governmental debt service, and access to external liquidity we consider strong;

- Adequate debt and contingent liability profile, with debt service carrying charges at 8.4% of expenditures and net direct debt that is 92% of total governmental fund revenue, as well as rapid amortization, with 75.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework.

Adequate economy

We consider Randall County's economy adequate. The county has an estimated population of 131,959. It has a projected per capita effective buying income of 112% of the national level and per capita market value of $73,310. Overall, the county's market value grew by 8.8% over the past year to $9.7 billion in 2018. The county unemployment rate was 3% in 2016.

The county is located in the south central part of the Texas panhandle and consists of approximately 933 square-miles. The county's economy is based on agribusiness, and the city of Canyon is the county seat. The county is also home to West Texas A&M University, Amarillo College, Buffalo Lake Wildlife Refuge, as well as Palo Duro Canyon State Park, which attracts 350,000 visitors annually and is the second largest canyon in the U.S.

The county's tax base is diverse, with the top 10 taxpayers accounting for only 7.2% of total assessed value. Major employers in the area include Canyon Independent School District, West Texas A&M University, retailers, grocers, a fiberglass manufacturer, county and state government, and an electric utility. The county's assessed value has grown 24% over the past five fiscal years, or about 4.8% annually on average. Management attributes this strong growth to continued residential development, the revitalization of downtown Canyon, and investments in wind energy projects. Management expects growth to continue over the next two to three years, as economic development projects continue and several tax abatements expire.

Strong management

We view the county's management as strong with good financial policies and practices under our FMA methodology, which indicates financial practices exist in most areas, but that governance of officials might not formalize or monitor all of them on a regular basis.

Highlights of policies practices include:

- Revenue and expenditure assumptions based on five years of historical trends as well as additional information from outside sources;
- Monthly budget performance reports provided to commission, which include year-to-date comparisons with the budget;
- A rolling five-year financial forecast that includes operational revenues and expenditures, as well as projections of fund balances;
- A formal investment management policy that follows state guidelines, and detailed monthly investment reporting to the commission that includes holdings and interest earnings by type of investment;
- A formal debt management policy that includes quantitative restrictions as well as general guidelines; and
- A formal reserve policy that requires maintenance of available balance equal to 15% to 25% of general fund

expenditures to mitigate any potential revenue shortfalls or unanticipated expenditures.

While the county does not have a formal standalone rolling five-year capital improvement plan, management does include capital items in the long-term financial forecast and regularly updates a list of capital assets such as vehicles and equipment to ensure they are properly maintained. Management does not anticipate many large capital needs over the next few years, as most buildings and infrastructure were renovated and updated over the past decade.

Strong budgetary performance

Randall County's budgetary performance is strong in our opinion. The county had operating surpluses of 1.9% of expenditures in the general fund and of 1.8% across all governmental funds in fiscal 2017. General fund operating results of the county have been stable over the last three years, with a result of 2.7% in 2016 and a result of 2.6% in 2015.

The county's general fund budget is comprised primarily of property taxes (71%), sales taxes (4.5%), and other fees, fines, and intergovernmental transfers (24.5%).

After adjusting for non-recurring expenditures from the general fund for election equipment and vehicles and equipment for the roads department, the county experienced positive operating results in fiscal 2017 of $806,000 or 1.8% of general fund expenditures. This follows consecutive years of positive operating results in fiscals 2016 and 2015 of $1.2 million and $1 million, respectively, amounts equal to about 2.7% of general fund expenditures. After making additional adjustments for one-time expenditures from bond proceeds for a juvenile detention center project, the county also experienced positive operating results in each of the past three fiscal years across all governmental funds, ranging from $960,000 to $1.4 million, or about 1.8% to 2.7% of total governmental fund expenditures.

The county's fiscal 2018 budget is balanced operationally, but shows deficit results after including a larger than normal transfer out to juvenile detention center funds. However, based on revenue and expenditure performance fiscal-year-to-date, management expect to end the fiscal year with positive operating results similar to prior years. The county has demonstrated consistency in out-performing budget projections due to conservative forecasting and budgeting practices. We expect the county's budgetary performance will remain strong throughout the two-year outlook period.

Very strong budgetary flexibility

Randall County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 25% of operating expenditures, or $11.5 million. The county has consistently maintained very strong reserves in each of the past three fiscal years. In fiscal 2015, available reserves were $11.2 million or 27.7% of general fund expenditures. After experiencing surplus operating results in fiscal 2016, the fund balance grew to $13.1 million or 30.3% of general fund expenditures. In fiscal 2017, the governing body decided to spend that surplus to purchase some new election equipment earlier than originally planned. This resulted in available fund balance falling back to $11.5 million or 25.2% of general fund expenditures at fiscal year-end 2017. Management has no plans to spend reserves in fiscal 2018 and expects fund balance to remain stable over the next two to three years. The county's formal reserve policy requires fund balance sufficient to cover 15 to 25% of general fund expenditures, which it has met and exceeded in recent years. We expect the county's budgetary flexibility will remain very strong over the outlook horizon.

Very strong liquidity

In our opinion, Randall County's liquidity is very strong, with total government available cash at 36.5% of total governmental fund expenditures and 4.3x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

Randall County's access to external liquidity is demonstrated through its frequent issuance of general obligation bonds and certificates of obligation. The county historically has had very strong cash balances, which we do not believe will deteriorate. All of the county's investments comply with state guidelines, and we do not consider them aggressive. As of Feb. 28, 2018, the county's investments were primarily in bank deposits and TexPool, the state's local government investment pool.

The county privately placed its series 2013, 2015, and 2017 GO refunding bonds, which were issued for debt service savings. The bond documents do not include any non-standard events of default, or acceleration of principal as a remedy for default. Therefore, we do not consider this debt to be a contingent liability risk. We expect the county to maintain very strong liquidity throughout the outlook period.

Adequate Debt and contingent liability profile

In our view, Randall County's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.4% of total governmental fund expenditures, and net direct debt is 92% of total governmental fund revenue. Approximately 75.1% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Proceeds of the 2018 certificates will purchase a new upgraded radio communications system that will be used by county departments that are first responders in emergency situations such as the Sheriff's Office, Fire and Rescue Department, Emergency Services Unit, Juvenile Probation Department, and Road and Bridge Department. Subsequent to the issuance of the 2018 certificates, the county has no plans to issue additional debt within the next two years.

Randall County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.6% of total governmental fund expenditures in 2017. The county made its full annual required pension contribution in 2017.

The county participates in the Texas County & District Retirement System (TCDRS), a defined-benefit pension plan that is administered by the State of Texas. The county's required pension contribution is actuarially determined annually. In fiscal 2017, the county's required contribution was $2.4 million or 4.6% of total governmental fund expenditures. The county's net pension liability was $10 million as of Dec. 31, 2016. The plan was 90.1% funded, based on its fiduciary net position as a percentage of the total pension liability.

As far as other post-employment benefits, retirees can continue to participate in the county's health insurance plan until they reach Medicare eligibility, but at their own cost. The county's OPEB liability for retiree health insurance is an implicit rate subsidy only.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects our opinion that the county will maintain strong budgetary performance, and very strong budgetary flexibility, supported by strong management practices and policies. We do not expect to change the rating within the two-year outlook period.

Upside scenario

We could raise the rating if the county's economic metrics improve to levels we consider comparable to those of higher-rated peers.

Downside scenario

We could lower the rating if the county experiences financial pressures that lead to structural budget imbalance and substantial declines in reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017