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Ratings

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Summary:

Fannin County, Texas; General Obligation

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Summary:

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Credit Profile		
US$9.9 mil comb tax and ltd pledge rev certs of oblig ser 2020 due 03/01/2045		
Long Term Rating	AA-/Stable	New
Fannin Cnty comb tax and ltd pledge rev certs of oblig ser 2020 due 03/01/2045		
Long Term Rating	AA-/Stable	Affirmed
Fannin Cnty GO bnds		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Fannin County, Texas' series 2020 combination-tax and limited-pledge revenue certificates of obligation and affirmed its 'AA-' rating, with a stable outlook, on the county's existing general obligation (GO) debt.

Security and the use of proceeds

An annual ad valorem tax levied against all taxable property in the county, within the limits prescribed by law, secures the certificates, which are additionally payable from a lien on, and limited pledge of, net revenue derived from the county's library system operation. Such a pledge is limited to $1,000, which is junior and subordinate to the lien on, and pledge of, county net revenue securing the payment of senior obligations, if any.

We understand officials intend to use series 2020 certificate proceeds mainly to complete county courthouse renovations.

The bonds are payable from an annual ad valorem tax levied against all taxable property in the county, within the limits prescribed by law.

State statutes provide for a maximum ad valorem tax rate of 80 cents per $100 of taxable assessed valuation (AV) for all constitutional purposes, including a maximum 40 cents for debt service, calculated at the time of issuance based on 90% tax collections. For fiscal 2020, the total tax rate is 58.9 cents per $100 of AV, including 4.11 cents for debt service and 12.98 cents for the road-and-bridge fund. Officials have maintained the current tax rate for the past three fiscal years.

Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, on RatingsDirect, we do not differentiate between the county's limited-tax GO debt and general creditworthiness. We think that the county's ability to meet debt service and continue to operate successfully has a strong link to its general creditworthiness and that there are no significant resource-fungibility limitations.

Credit overview

We expect current projects, including highway expansions and new lake construction, will likely support ongoing growth across all sectors during the next few years. We also expect the county's property tax base, supporting the county's major revenue stream, will also benefit from residential sprawl extending from the Dallas-Fort Worth Metroplex. Conservative spending has allowed management to build historical available fund balance, but growth-related capital and operational needs could potentially pressure long-term performance.

The rating reflects our opinion of the county's:

- Very weak economy, with projected per capita effective buying income at 72.5% of the national level and market value per capita of $54,441;
- Adequate financial management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 44% of operating expenditures;
- Very strong liquidity, with total government available cash at 53% of total governmental-fund expenditures and 24.6x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 2.2% of expenditures and net direct debt that is 126.2% of total governmental-fund revenue; and
- Strong institutional framework score.

Very weak economy

We consider Fannin County's economy very weak. The county has an estimated population of 34,261. The county has a projected per capita effective buying income at 72.5% of the national level and per capita market value of $54,441. Overall, market value has grown by 13.1% during the past year to $1.9 billion in fiscal 2020. County unemployment was 3.1% in 2018.

The primarily residential but largely rural county, about 70 miles northeast of the Dallas-Fort Worth Metroplex, borders Oklahoma. Leading county employers include:

- Sam Rayburn Memorial Veterans Center (880 employees),
- Texas Department of Criminal Justice (500),
- McCraw Oil/Kwik Chek (464),
- Bonham Independent School District (350), and
- Walmart Inc. (200).

The property tax base is diverse with the 10 leading taxpayers accounting for just 9.2% of AV. The tax base has experienced steady growth during the past decade with taxable AV increasing by an aggregate 54% since tax year 2010. In our opinion, solid growth will likely continue as Texas converts State Highway 121 to four lanes running through the county, which should spur growth across all sectors, including residential. Officials also partially attribute near-term growth to its access to the Dallas-Fort Worth Metroplex. Our assessment of the county's economy will likely improve once market value per capita exceeds $55,000, which we expect to occur next year.

In addition, the construction of a new 16,641-acre lake in northern Fannin County broke ground in May 2018 with project completion scheduled for 2021. While ensuring vital water supplies for the rapidly growing North Texas region, officials expect the finished lake to contribute significantly to the county's economy. Zoning for the areas surrounding the lake include residential, recreational, and commercial purposes. Officials report surrounding property values have already increased significantly. The county is planning another 12,000-acre lake for its southern portion that it expects to be operational by 2025.

Adequate management

We view the county's financial management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Highlights include management's:

- Revenue and expenditure assumptions based, in part, on three years' historical trends and data from outside sources to assist with forecasting;
- Monthly budget updates to the county commission, including budget-to-actual comparisons with amendments as needed;
- Formal investment-management policy with monthly holding-and-performance reports to the commission; and
- Formal general-fund-balance policy of maintaining a minimum unassigned fund balance between 20% and 30% of budgeted expenditures to mitigate possible revenue shortfalls and unexpected expenditures.

The county does not currently have any formal long-term financial or capital planning or debt-management practices or policies.

We understand that the county addresses its information technology and cybersecurity internally and that it has cybersecurity insurance through the Texas Association of Counties. The county backs up financial information daily on the cloud and the Sheriff's office data offsite at two separate locations. We also understand the state requires the county to conduct cybersecurity training for employees.

Adequate budgetary performance

Fannin County's budgetary performance is adequate, in our opinion. The county had deficit operating results in the general fund at 3.7% of expenditures but a surplus result across all governmental funds at 2.2% in fiscal 2018.

Management largely attributes fiscal 2018 performance to a large increase in child-protection-service (CPS) cases brought before the district court, the added cost of relocating personnel due to courthouse renovations, and insurance costs. These have been recurring issues since fiscal 2017 and had an effect on unaudited fiscal 2019 results with deficit operating results of 5%; officials report that during first-quarter fiscal 2020, the number of CPS cases leveled off. In addition, courthouse improvements should be complete by calendar year-end 2020.

Officials adopted the balanced fiscal 2020 budget. Based on first-quarter results, however, they expect to end fiscal 2020 with a 3.5% operating surplus, or $408,000, supported by reducing expenditures and flattening CPS cases.

We expect budgetary performance will likely remain, at least, adequate during the next two fiscal years. After we adjust for capital outlay funded with bond proceeds, we do not expect performance across all governmental funds during the next few fiscal years to differ significantly from historical results. Property taxes generated 71% of general fund revenue in fiscal 2018; historically, this has been a reliable revenue source.

Very strong budgetary flexibility

Fannin County's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 44% of operating expenditures, or $5 million. We expect available fund balance will likely remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

We expect budgetary flexibility will likely remain very strong during the next two fiscal years, supported by a formal policy of maintaining a minimum 20%-30% of operating expenses in reserve. The county estimates it ended unaudited fiscal 2019 with an available fund balance of about 36% of expenditures, or $4.3 million. For fiscal 2020, despite adopting a balanced budget, management is projecting to add roughly $408,000 to fund balance, or 41% of projected expenditures. There are currently no plans to draw on fund balance.

Very strong liquidity

In our opinion, Fannin County's liquidity is very strong, with total government available cash at 53% of total governmental-fund expenditures and 24.6x governmental debt service in fiscal 2018. In our view, the county has strong access to external liquidity if necessary.

In our view, the county's access to the market during the past 20 years, mainly for tax-backed bond issuance, demonstrates its strong access to external liquidity. It has historically had, what we consider, very strong cash balances. In addition, we do not think cash will likely decrease during the next two fiscal years.

Currently, all investments comply with state guidelines. At Dec. 31, 2019, investments were primarily with money-market funds, the state investment pool, and instant cash sweeps; we do not consider these investments aggressive. We also understand the county does not currently have any exposure to contingent liabilities that could pressure liquidity.

Weak debt-and-contingent-liability profile

In our view, Fannin County's debt-and-contingent-liability profile is weak. Total governmental-fund debt service is 2.2% of total governmental-fund expenditures, and net direct debt is 126.2% of total governmental-fund revenue.

After the series 2020 issuance, the county will have $22 million of direct debt outstanding. Overall net debt will account for 6.2% of market value. Officials do not currently plan to issue additional debt during the next two years. Assuming no additional debt and revenue across all governmental funds remains flat, due to debt rolling off slowly, we posit the county's debt profile could improve by 2024.

County pension contributions totaled 3.4% of total governmental-fund expenditures in fiscal 2018. The county made its full annual required pension contribution in fiscal 2018.

We do not view pension liabilities as an immediate credit risk for the county. The county participates in Texas County & District Retirement System (TCDRS), a statewide, state-administered, defined-benefit pension plan. In our opinion, TCDRS is well funded with manageable costs. The county does not offer other postemployment benefits to retirees.

As of Dec. 31, 2017, latest measurement date, the county participates in TCDRS, which is 96.3% funded with a net pension liability equal to $898,000. The state actuarially determines the county's required pension contribution based on an actuary study, and the county has historically funded its annual required costs in full. Actuarial assumptions include an 8.1% discount rate, which we consider aggressive compared with our view of 6.5% being conservative, and 14-year closed-amortization period.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion it will likely not change the rating during the two-year outlook. We expect management will likely maintain very strong budgetary flexibility and liquidity, supported by its formal unassigned fund-balance policy. We also think the county's economy will likely continue to grow in conjunction with its current highway improvements, new lake development, and access to the Dallas-Fort Worth Metroplex.

Upside scenario

We could raise the rating if economic indicators were to improve to levels we consider comparable with higher-rated peers, coupled with strengthening financial practices and consistently strong budgetary performance.

Downside scenario

We could lower the rating if the county were to develop weak budgetary performance that has an effect on current reserves; the county were to experience substantial economic deterioration, which we consider unlikely; or management were to issue additional debt, weakening our view of its current debt profile.

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
- 2019 Update Of Institutional Framework For U.S. Local Governments