

RatingsDirect®

Summary:

Hays County, Texas; General Obligation

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Credit Profile

US\$25.0 mil ltd tax bnds ser 2022 dtd 12/07/2022 due 02/15/2042

<i>Long Term Rating</i>	AA+/Stable	New
Hays Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Hays Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Hays Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating on Hays County, Texas' previously issued general obligation (GO) debt to 'AA+' from 'AA'.
- At the same time, S&P Global Ratings assigned its 'AA+' rating to the county's roughly \$25 million series 2022 limited-tax GO bonds.
- The outlook is stable.
- The upgrade reflects our view that while the county's incomes trend below those of 'AA+' rated peers, we believe its economic growth and diversification stemming from its proximity to Austin will underscore strong operating results and maintenance of very strong reserves despite weakening macroeconomic conditions.

Security

The limited-tax GO bonds are a direct obligation of the county, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the county. Texas statutes limit the maximum ad valorem tax rate for counties at 80 cents per \$100 of taxable assessed valuation (AV) for all county purposes. Administratively, Texas' attorney general will permit the allocation of 40 cents of the maximum tax rate for ad valorem tax debt service. Despite limitations imposed by the state levy-limit law, we did not make a rating distinction for the limited-tax GO pledge due to the county's revenue fungibility and flexibility under the levy limit.

Bond proceeds will fund construction, improvements, and acquisition of land and buildings and facilities for park and recreational purposes.

Credit overview

Hays County benefits from rapid economic and population growth because of its proximity to Austin and participation in the Austin-Round Rock metropolitan statistical area (MSA). This region is experiencing significant expansion, including in the county, where the AV increased by 28% in fiscal 2023. While the county's debt position reflects the infrastructure required to accommodate this rapid growth, we think the operating revenue collected from substantial

residential and businesses development will support maintenance of budgetary balance and strong operating results as well as robust reserves that can help cushion the county's financial profile going into a weaker macroeconomic environment.

The rating reflects our view of the county's:

- Robust, fast-growing economy, which will likely spur growth in the county's demographics that underpins the ability to fund service and infrastructure expansion;
- Well-embedded policies and practices that management utilizes to guide its budgeting and forecasting processes;
- Multiyear surpluses, coupled with very strong liquidity and reserves; and
- High debt load, reflecting infrastructure investments, but offset by manageable pension and other postemployment benefits (OPEB) costs.

Environmental, social, and governance

The rating incorporates our view of environmental, social, and governance (ESG) risks relative to Hays County's economy, management, financial measures, and debt and liability profile; we view these as neutral in our credit analysis. The county partnered with Texas State University to conduct various sustainability projects, with goals to conserve, mitigate, restore, and protect the county's natural resources.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that the county's upward economic trajectory will continue, while maintaining very strong reserves and a manageable liability profile.

Downside scenario

We could lower the rating if budgetary performance were to weaken or if significant debt issuance, not offset by market value growth, were to result in fixed-cost pressure.

Upside scenario

We could raise the rating if the county's debt burden eases and incomes improve relative to those of higher-rated peers.

Credit Opinion

Strong, very diverse economy with rapid growth, benefiting from Austin-Round Rock MSA

Hays County, in south-central Texas, benefits from direct access to the Austin-Round Rock MSA and the Interstate 35 corridor. San Marcos, the county seat, is home to a large outlet mall and Texas State University, the county's leading employer with roughly 3,700 employees, as well as student enrollment of approximately 39,000. Tourism, education, agriculture, manufacturing, and, more recently, retail establishments underpin the county's rapid tax base expansion. Furthermore, Amazon has a significant presence as the county's leading taxpayer and third-largest employer.

We think the area's residential development, including the completion of 10,000 residential lots within the next 12-24

months, will also fuel tax base growth and operating revenue. While the residential market may be cooling from higher interest rates, the affordability relative to regional peers will likely help support ongoing developer interest in the county. In addition, a new 150,000 square-foot Costco, new office buildings, and a new hotel with event center, along with the jobs associated with these commercial properties, will likely lead to stronger economic metrics and demographics during the outlook period.

Strong management with good financial management policies, practices

Highlights include management's:

- Revenue and expenditure assumptions, reflecting three to five years of historical data and information;
- Regular budget monitoring with monthly budget-to-actual results provided to county commissioners, which can amend the budget as needed;
- Formal investment-management policy that follows state guidelines with distribution of quarterly investment reports on holdings and performance results to the commissioners;
- Formal debt-management policy; and
- Formal general fund reserve policy that includes maintaining three to six months' operating expenditures in reserves, which the county is exceeding.

The county utilizes various measures to mitigate cyber security risks.

The county lacks a long-term financial plan and rolling capital improvement plan, but the county considers its infrastructure needs through the bond program and a transportation plan.

The institutional framework score for Texas municipalities is strong.

Multiyear surpluses and maintenance of very strong reserves to continue

Our assessment of operating performance includes adjustments to account for recurring interfund transfers and adjustments to reflect debt-funded capital expenditures and one-time revenues such as federal stimulus funds.

The county's positive operating results for the past several years are largely from increased property tax revenue because of higher property values and substantial new development as well as sales tax outperforming projections. Property taxes generated 59% of general fund revenue for fiscal 2021, followed by sales taxes at 26% and charges for services at 8%.

Fiscal 2022 general fund budget-to-actual results show another operating surplus at year-end. Operating costs increased to \$3.8 million, of which \$2.7 million was related to salaries and personnel, reflecting opening of the new jail as well as staff for the new Judicial District Court and hiring for parks and law enforcement and administrative offices. We expect the county's tax base growth will generate revenue to maintain balanced budgetary performance and at least break-even results in the near term. The county's reserves are what we consider very strong. The county's rapid growth and personnel needs could require additional administrative space, and management reports that it may utilize a portion of its reserves to fund this project, but remains committed to its three to six months' formal reserve policy.

The fiscal 2023 budget includes operating deficits in both the general fund and total governmental funds, which is a

typical practice, but year-end operations typically outperform and end with a positive result.

The county also receives toll revenue, supporting its pass-through road bonds. The agreed-upon reimbursement rate is 14 cents per vehicle mile traveled, with a minimum annual payment of \$6.6 million. The maximum annual reimbursement is \$13.3 million, with a limit of \$133.1 million through expiration of the agreement. For fiscal 2022, the county received \$10.7 million, which flows through the debt-service fund.

Debt profile reflects required infrastructure investment, additional debt likely

After this issuance, the county will have roughly \$550.3 million in direct debt outstanding. Given the economic growth, additional borrowing is likely within the next two years, though no definitive amounts are known at this time. While carrying charges are elevated, we think the county's costs are manageable, particularly as economic growth will likely lead to additional resources to cover debt service. Further, we note roughly \$50 million of the debt outstanding consists of pass-through toll revenue bonds and reimbursements from the Texas Department of Transportation following the completion of specified projects that offset the debt service costs associated with these bonds. Because toll revenue is part of total governmental funds, we do not view the bonds as self-supporting; however, revenue improves our view of the county's total governmental funds' operating results.

The county currently has \$4.1 million in privately placed debt. We understand there are no ordinary events of default or acceleration provisions. Furthermore, there are no contingent-liquidity risks due to privately placed debt making up less than 1% of total governmental cash and cash equivalents.

While the county's local economy has performed well during the past two years, S&P Global Economics forecasts that the national economy will enter a slow-growth recession in 2023 as economic momentum wanes. In particular, we believe that higher prices and aggressive rate hikes will weigh on affordability and demand, which in turn could slow the sales tax increases the county has experienced recently.

Pension and OPEB highlights:

We do not view pension and OPEB liabilities as an immediate credit pressure because required contributions account for a small 3.9% of total governmental expenditures and are not expected to increase materially during the next few fiscal years due to favorable funding.

As of measurement date Dec. 31, 2020, the county participates in the statewide Texas County & District Retirement System, a nontraditional, defined-benefit pension plan that provides retirement, disability, and death benefits for all full-time employees. The plan is 88.9% funded, with a net pension liability equal to \$29.6 million. Contributions are actuarially determined. Plan contributions were sufficient to cover 100% of our minimum-funding-progress guidelines. Actuarial assumptions include an 7.6% discount and a closed amortization period. We view a 6% discount as a conservative measure of future investment returns; therefore, we view the plan's assumed 7.6% discount as aggressive.

The county provides certain health care benefits through a single-employer, defined-benefit OPEB plan for all full-time employees who meet eligibility requirements. The county's net OPEB liability was \$38.9 million as of Sept. 30, 2021.

Hays County--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	103			
Market value per capita (\$)	155,884			
Population		241,431	232,234	225,256
County unemployment rate (%)	4.1			
Market value (\$000)	37,635,252	25,111,291		
Ten largest taxpayers % of taxable value	3.0			
Strong budgetary performance				
Operating fund result % of expenditures		11.0	7.1	1.7
Total governmental fund result % of expenditures		7.2	6.8	1.5
Very strong budgetary flexibility				
Available reserves % of operating expenditures		56.3	53.5	45.5
Total available reserves (\$000)		56,703	50,053	41,910
Very strong liquidity				
Total government cash % of governmental fund expenditures		69	63	58
Total government cash % of governmental fund debt service		308	253	266
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		22.5	24.8	21.9
Net direct debt % of governmental fund revenue	277			
Overall net debt % of market value	7.6			
Direct debt 10-year amortization (%)	53			
Required pension contribution % of governmental fund expenditures	3.9			
OPEB actual contribution % of governmental fund expenditures	0.5			
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of November 1, 2022)

Hays Cnty ltd tax bnds		
Long Term Rating	AA+/Stable	Upgraded

Ratings Detail (As Of November 1, 2022) (cont.)

Hays Cnty ltd tax rfdg bnds		
Long Term Rating	AA+/Stable	Upgraded
Hays Cnty GO		
Long Term Rating	AA+/Stable	Upgraded
Hays Cnty GO		
Long Term Rating	AA+/Stable	Upgraded
Hays Cnty GO		
Long Term Rating	AA+/Stable	Upgraded
Hays Cnty GO		
Long Term Rating	AA+/Stable	Upgraded

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