

RatingsDirect®

Summary:

Bosque County, Texas; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

Bosque County, Texas; General Obligation

Credit Profile

US\$9.565 mil GO bnds ser 2017 dtd 03/01/2017 due 03/01/2037

Long Term Rating

AA-/Stable

New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Bosque County, Texas' series 2017 general obligation (GO) bonds. The outlook is stable.

The bonds are payable from revenue from an ad valorem tax levied on all taxable property in the county, within the limits prescribed by law. The maximum allowable 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 2017 levy is well below the maximum at 47.5 cents per \$100 of AV. The county does not levy a debt service tax rate. Beginning in fiscal 2018, officials plan to levy a 4-cent interest and sinking tax rate, which will be dedicated to debt service. Despite the limitations imposed by the state levy limit law, we made no rating distinction for the limited-tax GO pledge, given the county's flexibility under the levy limit as well as very strong liquidity. Management indicates bond proceeds will be used to construct a law enforcement center and jail.

The 'AA-' rating reflects our assessment of the county's:

- Adequate economy, with market value per capita of \$82,942 and projected per capita effective buying income at 91.9% of the national level;
- Adequate 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 a slight operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 28% of operating expenditures;
- Very strong liquidity, with total government available cash at 43.3% of total governmental fund expenditures and 41.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 1.0% of expenditures and net direct debt that is 99.3% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Bosque County's economy adequate. The county has an estimated population of 18,197. The county has a projected per capita effective buying income of 91.9% of the national level and per capita market value of \$82,942. Overall, the county's market value was stable over the past year at \$1.5 billion in 2017. The county unemployment rate was 4.5% in 2015.

Bosque County is located in central Texas, about 60 miles south of Dallas and 40 miles north of Waco. Meridian serves as the county seat. Sand, gravel, and limestone are mined within the county for construction. Leading employers in the county include: Goodall-Witcher Healthcare, a hospital and nursing home (180 employees); Lutheran Sunset Ministries, a nursing home facility (178); Double B Ammonia Release (150), and Meridian Independent School District (130). Officials expect the economy to remain stable. Recent commercial developments include a tractor supply company, a convenience center/fuel stop, a ShopCo, and a solar panel farm that is currently under construction.

Adequate management

We view the county's 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.

Among the highlights of the county's management techniques is the monthly monitoring and reporting of the current budget to ensure compliance and to allow corrective actions to be taken to ensure a balanced budget. Management also forecasts revenues and expenditures by looking at historical trends and revenue growth projections. Also, the county provides monthly reports on investment holdings to its elected officials. It has an informal target of maintaining an available cash position of at least six months of operations to provide the county with flexibility during economic downturns. It lacks a long-term financial plan, long-term capital plan, and a formalized debt management policy.

Adequate budgetary performance

Bosque County's budgetary performance is adequate in our opinion. The county had deficit operating results in the general fund of negative 3.5% of expenditures, but a slight surplus result across all governmental funds of 1.2% in fiscal 2015.

Officials attribute the operating deficit in the general fund to transfers out related to election and judicial expenditures. The county has established an election and judicial fund to better track its expenditures. Bosque County's total governmental fund revenues are diverse, with property taxes accounting for about 68% of general fund revenues. This revenue source has demonstrated stable and steady growth in the past three fiscal years. Currently, management ended fiscal 2016 with a \$665,000 general fund surplus and a \$1.2 million surplus in total governmental funds, which officials attribute to strong oversight of expenditures. The adopted fiscal 2017 general fund budget reflects breakeven operations. We view it as unlikely that Bosque County's budgetary performance will deteriorate during the next two years.

Very strong budgetary flexibility

Bosque County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 28% of operating expenditures, or \$2.2 million.

Unaudited results for fiscal 2016 reflect another surplus, bringing the available fund balance to a projected \$2.9 million, or what we consider a very strong 40% of expenditures. The adopted fiscal 2017 budget reflects break-even operations and officials have no plans to draw down reserves. At this time, officials have stated that revenues and expenditures are trending on budget. As such, we expect that the county will maintain its very strong budgetary flexibility.

Very strong liquidity

In our opinion, Bosque County's liquidity is very strong, with total government available cash at 43.3% of total

governmental fund expenditures and 41.3x governmental debt service in 2015. In our view, the county has strong access to external liquidity, if necessary.

The county's strong access to external liquidity is demonstrated through its access to the market in the past 15 years.

Bosque County has issued GO-backed bonds in recent years. It has historically had what we consider very strong cash balances, and given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will worsen. Currently, all of Bosque County's investments comply with Texas statutes and the county's internal investment policy. As of Sept. 30, 2016, investments included TexPool and certificates of deposit. We do not consider this aggressive. Bosque County does not have any current contingent liabilities that could lead to an unexpected deterioration from its currently very strong levels.

Adequate debt and contingent liability profile

In our view, Bosque County's debt and contingent liability profile is adequate. Total governmental fund debt service is 1.0% of total governmental fund expenditures, and net direct debt is 99.3% of total governmental fund revenue.

Officials held a bond election in November 2016 and over 67% of voters approved the issuance of bonds to fund the construction of a new law enforcement center. Officials expect a 4-cent tax rate impact, which will be levied in fiscal 2018. The increased tax rate is projected to generate roughly \$600,000 annually, which will cover the principal and interest payments. After this issuance, the county does not have any authorized, but unissued debt remaining and no plans to approach voters for additional bonding capacity.

Bosque County's pension contributions totaled 1.9% of total governmental fund expenditures in 2015. The county made its full annual required pension contribution in 2015.

The county participates in the Texas County and District Retirement System (TCDRS), which is administered by the State of Texas and is the county's largest plan. Bosque County's required pension contribution is its actuarially determined contribution, which is calculated at the state level based on an actuary study. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, the county's net pension asset was measured as of Dec. 31, 2015, and was \$272,255. The TCDRS plan maintained a funded level of 103.1%, using the plan's fiduciary net position as a percentage of the total pension liability. For additional details on GASB 67 and 68, see our report "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect. The county does not provide health care benefits to retirees.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Outlook

The stable outlook reflects our expectation that the county will maintain its very strong financial profile. The outlook also reflects our opinion that management will maintain its very strong reserve levels. Given the above, we do not expect to change the rating during our two-year outlook horizon.

Upside scenario

We could raise the rating if income and market value per capita were to continue to grow to levels we consider comparable with the county's higher-rated peers while formalizing financial management practices and maintaining very strong reserves.

Downside scenario

If the county were to experience any declines in its reserves to levels we consider only adequate or if budgetary performance was to fall to levels we consider weak, we could take a negative rating action.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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