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## Summary:

# Deaf Smith County, Texas; General Obligation

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## Summary:

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### Credit Profile

US\$36.2 mil GO bonds ser 2020 dtd 02/15/2020 due 02/15/2045

*Long Term Rating*

A+/Stable

New

## Rationale

S&P Global Ratings assigned its 'A+' rating to Deaf Smith County, Texas' series 2020 general obligation (GO) bonds. The outlook is stable.

### Security and the use of proceeds

The bonds are secured by an unlimited ad valorem tax levied on all taxable property within the county.

Proceeds from the bonds will be used to construct a new jail facility. This \$36 million issuance will be the county's only GO debt.

### Credit overview

Located in the panhandle of the state of Texas, Deaf Smith County is experiencing slow and steady growth that is likely to continue for at least the next two years. County management generally practices conservative budgeting that supports year-end surpluses and very strong reserves that are measured on a cash basis of accounting. The current debt issuance will be used for a new jail facility and will be the county's only GO debt.

The rating further reflects our opinion of Deaf Smith County's:

- Weak economy, with market value per capita of \$87,242 and projected per capita effective buying income at 69.2% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2019 of 49% of operating expenditures;
- Very strong liquidity, with total government available cash at 50.9% of total governmental fund expenditures and 151.9x governmental debt service;
- Very weak debt and contingent liability profile, with debt service carrying charges at less than 1% of expenditures and net direct debt that is 269.0% of total governmental fund revenue; and
- Strong institutional framework score.

### **Weak economy**

We consider Deaf Smith County's economy weak. The county has an estimated population of 19,091. The county has a projected per capita effective buying income of 69.2% of the national level and per capita market value of \$87,242. Overall, the county's market value grew by 17.8% over the past year to \$1.7 billion in 2020. The county unemployment rate was 2.8% in 2018.

Deaf Smith County's tax base is primarily composed of the agriculture and beef industries. Officials reported that a large packing plant and a manufacturing facility have located within the county along with several wind farms. In addition, there are active residential developments under construction including one subdivision with an estimated 200 single-family homes. The local economic development corporation is working with business owners to renovate the county's downtown. We believe the slow and steady growth is likely to continue and follow the historical trend.

### **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.

Highlights include management's:

- Revenue and expenditure assumptions based, on five 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 quarterly holding-and-performance reports to the commission;
- Informal general fund balance target of maintaining a minimum unassigned fund balance of four-to-six months of budgeted expenditures to mitigate possible revenue shortfalls and unexpected expenditures; and
- The county does not currently have any formal long-term financial or capital planning or debt-management practices or policies.

### **Strong budgetary performance**

Deaf Smith County's budgetary performance is strong in our opinion. The county had operating surpluses of 4.0% of expenditures in the general fund and of 4.8% across all governmental funds in fiscal 2019.

Management has a history of adopting conservative budgets that support year-end operating surpluses. This budgeting philosophy contributed to the \$351,918 surplus at the 2019 fiscal year-end, which is net of an \$810,000 transfer out to the self-insurance fund. This transfer out is consistent with historical amounts and is expected to continue in forward looking financials. County operating revenues are derived 58% from property taxes, 22% from sales taxes, and 20% from other sources.

Officials adopted a balanced budget for fiscal 2020, which means operating revenues cover operating expenditures. However, consistent with historical results, the actual results for the year are expected to end with a surplus.

### **Very strong budgetary flexibility**

Deaf Smith County's budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2019 of 49% of operating expenditures, or \$4.4 million. We expect the available cash reserve to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Negatively affecting budgetary flexibility, in our view, is Deaf Smith County's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

County officials plan to draw down up to \$1 million from the general fund reserve toward the demolition of an existing facility. However, we believe the county's budgetary flexibility will likely remain very strong during the next two fiscal years, supported by target of maintaining a minimum four-to-six months of operating expenses in reserve.

### **Very strong liquidity**

In our opinion, Deaf Smith County's liquidity is very strong, with total government available cash at 50.9% of total governmental fund expenditures and 151.9x governmental debt service in 2019. In our view, the county has satisfactory access to external liquidity if necessary.

We consider the county to have 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. The county does not have any exposure to contingent liabilities at present that could pressure liquidity.

### **Very weak debt and contingent liability profile**

In our view, Deaf Smith County's debt and contingent liability profile is very weak. Total governmental fund debt service is less than 1% of total governmental fund expenditures, and net direct debt is 269.0% of total governmental fund revenue.

The bonds were authorized by voters in a bond election approved on Nov. 5, 2019, and it will be the county's only GO debt outstanding. In addition, officials do not currently plan to issue additional debt which will keep debt levels even.

The county made its full annual required pension contribution in 2019.

We do not consider pension liabilities as a source of long-term credit pressure for Deaf Smith County. However, other postemployment benefit liabilities are funded on a pay-as-you-go basis and, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs.

The county participates in the following plans:

- Texas County and District Retirement System (TCDRS); funded at 89.5%, with a net pension liability of \$2.9 million; and
- TCERS Group Term Life Fund; unfunded.

Although the county is making the required actuarially determined contribution and has a strong funded ratio, the actual minimum funding progress calculation is under 100%. However, contributions do exceed our static funding

metric, showing progress is made in plan funding. The discount rate of 8% is high, in our view, and could lead to contribution volatility.

### **Strong institutional framework**

The institutional framework score for Texas counties is strong.

## **Outlook**

The stable outlook reflects our view of the county's slow yet steady tax base growth, strong budgetary performance, and very strong reserves. For these reasons, we do not expect to change the rating on the county during our two-year outlook duration.

### **Downside scenario**

We could lower the rating if the county were to develop weak budgetary performance that has an effect on current reserves; Deaf Smith 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.

### **Upside scenario**

While not expected, we could raise the rating if economic indicators and debt levels were to improve to levels we consider comparable to that of higher-rated peers.

## **Related Research**

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

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