S&P Global
Ratings

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Summary:

Lubbock County, Texas; General Obligation

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Summary:

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Credit Profile		
US$41.0 mil unltd tax rfdg bnds ser 2020 dtd 10/15/2020 due 02/15/2040		
Long Term Rating	AA+/Stable	New
Lubbock Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock Cnty GO bnds ser 2019 dtd 08/15/2019 due 02/15/2020-2021 2024-2040		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Lubbock County, Texas' series 2020 unlimited-tax road bonds. At the same time, S&P Global Ratings affirmed its 'AA+' long-term ratings on the county's previously issued unlimited-tax road bonds and limited-tax general obligation (GO) bonds. The outlook is stable.

The unlimited-tax road bonds are payable from the receipts of a direct and continuing annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the county. Bond proceeds will be used to fund voter-approved road projects.

The GO bonds are payable from the receipts of a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the county. Texas counties are limited to a maximum allowable ad valorem tax rate of 80 cents per $100 of assessed value (AV) for general fund, jury fund, road and bridge fund, and permanent improvement fund purposes, with the portion dedicated to debt service limited to 40 cents of the total 80 cents maximum tax rate. The county does not currently levy a jury fund and road and bridge fund tax. Based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019), we view the limited-tax pledge on par with the county's general creditworthiness. We do not notch off of the general creditworthiness because the ad valorem taxes are not collected from a narrower or distinctly different tax base and there are no limitations on the fungibility of the county's resources, which supports our view of Lubbock County's overall ability and willingness to pay debt service.

Credit overview

The rating reflects the strength and stability of the county's economy that is supported by a longstanding higher education presence, robust health care sector, and growing commercial base that serves to highlight Lubbock County's position as the southern Texas Panhandle's economic and trade center. These strong expansion trends have resulted in population growth, low unemployment, and increased local tax revenues that support the county's operating budget. Although we expect leading economic indicators and revenues to soften in the recessionary climate caused by the COVID-19 pandemic, the county's ability to control expenditures will support at least breakeven results over the short term. Near-term financial stability is also supported by a strong management framework of conservative budgeting, consistent monitoring, and commitment to maintaining financially sound reserve levels. While the debt burden has risen in line with new issuance, annual debt costs are projected to decline after fiscal 2023 before leveling off, providing additional debt capacity in future years.

The rating reflects our view of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 34% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.5% of total governmental fund expenditures and 5.0x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 5.5% of expenditures and net direct debt that is 49.0% of total governmental fund revenue, but significant medium-term debt plans; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating and analysis incorporate our view regarding the health and safety risk posed by the pandemic, which we believe could affect the county's economically sensitive revenues and pressure the budget in the short term. Overall, we consider Lubbock County's social risks in line with those of the sector. We also analyzed the county's environmental and governance risks relative to its credit factors, and we determined that both are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the county's available reserves were to materially weaken to levels no longer in line with those of similarly rated peers, either through large one-time expenditures or consistently weak budgetary performance.

Upside scenario

We could raise the rating if the county's wealth and income levels improve and are in line with those of higher-rated peers, and if Lubbock County further strengthens its financial management practices.

Credit Opinion

Strong economy

We consider the county's economy strong. Lubbock County, with an estimated population of 310,956, is located in the Lubbock, TX MSA, which we consider broad and diverse. The county also benefits, in our view, from a stabilizing institutional influence. It has projected per capita effective buying income of 82.6% of the national level and per capita market value of $76,247. Overall, the county's market value grew by 3.4% over the past year to $23.7 billion in 2021. The county unemployment rate was 2.8% in 2019.

Lubbock County is the southern Texas Panhandle's regional economic and trade center. The education, health services, retail, manufacturing, and government sectors are the mainstays of what we view as a well-diversified economic base. Texas Tech University, which employs 6,600 and had a fall 2018 enrollment of 40,000, anchors the economy. Approximately another 13,000 students are attend two smaller universities and a junior college. In addition, the health care sector, anchored by five hospitals with over 1,900 beds, employs more than 17,000. Agriculture is also a key sector in the local economy.

In our view, the significant higher education presence has a stabilizing influence on the local economy through job creation, regional draw, and the generation of qualified workers into the area's labor force. However, university property is generally tax-exempt, which results in understated market value per capita, while the presence of college students in the county's population figure skews per capita income levels. The county's per capita retail sales have historically been higher than the U.S. average, which we believe is an indication of the regional draw.

Tax base growth trends have been strong, averaging nearly 5% annually in the past five years. In addition, the tax base is diverse, with the top 10 taxpayers comprising just 3.6% of AV. New developments are underway in single-family residential and multi-family housing. In addition, commercial and retail businesses are expanding, and Texas Tech continues to grow, serving as a point of stability for the regional economy.

We expect that in the short term, development trends and leading economic indicators could moderate due to the recessionary environment caused by the pandemic. However, we expect Lubbock County's underlying diversity and regional draw will support its ability to recover without significant lasting effects on its economy or revenue base. The county's unemployment rate was 5.2% in August after spiking to 10% following the initial statewide stay-at-home mandates in April. For more information on S&P Global Economics' view on the recovering U.S. economy, please see "The U.S. Economy Reboots, With Obstacles Ahead" (published on Sept. 24, 2020, on RatingsDirect).

Strong management

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

Revenue and expenditure assumptions are based on 10 years of historical data, and factor in conservative growth measures. The budget is updated as needed, with budget-to-actual presentations provided to the commissioners monthly. Lubbock County maintains a five-year capital improvement plan that it updates annually. Formal investment policies follow state guidelines and commissioners receive quarterly investment reports. The county has a formal target of maintaining at least 25% of expenditures in reserve to provide sufficient working capital and a margin of safety for local and regional emergencies without borrowing. County officials consider a balance of less than 15% to be cause for concern, barring unusual or deliberate circumstances. If unassigned general fund balance falls below the target, officials take action to reach compliance within two budget cycles.

Adequate budgetary performance

Lubbock County's budgetary performance is adequate in our opinion. The county had operating surpluses of 7.6% of expenditures in the general fund and of 4.5% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2019 results in the near term.

Our forward-looking view of performance reflects our expectation that financial results could moderate somewhat from fiscal 2019's due to the lower revenues during the pandemic. Consistent with previous years, the county was able to cut costs considerably relative to its conservative budget assumptions to remain in balance, despite revenue shortfalls for fiscal 2020.

The county's primary sources of operating revenues are property taxes (57%) and sales taxes (25%). Although the bulk of property tax revenues were collected before the shutdown, total tax collections, including sales taxes, are estimated to be 6% below budget for fiscal 2020.

Consistent with previous years, the adopted budget for fiscal 2020 included a modest reserve appropriation of $2.4 million, reflecting conservative budget assumptions that the county typically outperforms. Despite the revenue pressures associated with the pandemic, officials expect to report a surplus of nearly $3 million, largely from cost savings to offset lower revenues. In total, officials estimated general fund expenditures were $13 million or 12% less than budgeted. In addition to typical departmental savings, the county benefitted from minimal travel and training costs and the ability to use CARES Act funding to offset its direct pandemic response costs. By comparison, in 2019 general fund expenditure savings relative to the budget were $10 million or 10%.

The adopted general fund budget for fiscal 2021 is relatively flat, except for $5 million that has been allocated for one-time expenditures. Budget assumptions include additional property tax revenue due to tax base growth and a modest increase in county sales tax collections.

Very strong budgetary flexibility

Lubbock County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 34% of operating expenditures, or $34.4 million.

Our calculations have been adjusted to include the county's committed fund balance in the general fund that could be made available by a resolution of the commissioners' court for emergencies and contingencies. The committed balance is earmarked for future capital plans. Based on estimates for fiscal 2020, officials expect to add approximately $3 million to fund balance. The fiscal 2019 budget conservatively forecasts a $5 million use of fund balance. However, given the county's history of better-than-budgeted actual results and commitment to maintaining at least 25% of expenditures in reserve, we do not expect our view of budgetary flexibility will materially weaken in the near term.

Very strong liquidity

In our opinion, Lubbock County's liquidity is very strong, with total government available cash at 27.5% of total governmental fund expenditures and 5.0x governmental debt service in 2019. We believe 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 and issuance of general obligation bonds over the past 20 years. Lubbock County 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 weaken. Currently, all of the county's investments comply with Texas statutes and the county's investment policy. At year-end fiscal 2019, investments were in federal agency securities, which we do not consider aggressive. The county does not have any privately placed debt or contingent liabilities that could materially affect its liquidity position over the next two years.

Adequate debt and contingent liability profile

In our view, Lubbock County's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.5% of total governmental fund expenditures, and net direct debt is 49.0% of total governmental fund revenue. Negatively affecting our view of the county's debt profile are its significant medium-term debt plans.

Lubbock County does not have any swaps or variable-rate debt. With the series 2020 bonds, it has $66.5 million of tax-backed debt outstanding including limited-tax GO bonds and unlimited-tax road bonds. In a May 4, 2019 election, voters approved a $99.65 million bond package for road improvements. The series 2020 bonds represent the second issuance under this referendum, with the last planned issuance of approximately $45 million scheduled for 2023.

Pension and other postemployment benefits highlights

We do not view pension obligations as an immediate credit risk for the county. Given the actuarial basis for annual pension contributions and Lubbock County's strong funding discipline, we do not expect a significant near-term increase in pension costs that could weaken budgetary performance. Combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.4% of total governmental fund expenditures in 2019. The county made its full annual required pension contribution in 2019.

The county participates in the following plan as of Sept. 30, 2019:

- The statewide Texas County & District Retirement System, which is a nontraditional, defined-benefit pension plan that provides retirement, disability, and death benefits for all full-time employees. The plan is 86.89% funded with a net pension liability equal to $32.2 million. Contributions are actuarially determined, and the county has historically fully funded its annual required costs. Plan contributions met our minimum funding progress guideline in fiscal 2019. Actuarial assumptions include an 8% discount rate and 12.6-year closed amortization period.
- Lubbock County Retiree Health Care Plan, which provides medical and dental benefits to certain retirees that elect to have continued coverage upon retirement. The county doesn't pre-fund this liability and county officials expect to continue to pay OPEB costs on a pay-as-you-go basis. As of fiscal 2019, the total OPEB liability was $24.1 million, a decrease of $12.5 million from the previous year.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013