

FITCH RATES WILLIAMSON COUNTY, TX PASS-THROUGH TOLL REV BONDS & REFUNDING BONDS 'AAA'

Fitch Ratings-Austin-07 November 2011: Fitch Ratings has assigned the following ratings to Williamson County, Texas' bonds:

- \$10 million pass-through toll revenue and limited tax bonds, series 2011 'AAA';
- \$33.135 million limited tax refunding bonds, series 2011 'AAA'.

The bonds are scheduled for a negotiated sale on Nov. 10, 2011. Proceeds from the pass-through toll revenue bonds will finance improvements to the state highway system located in the county. Proceeds from the refunding bonds will be used to refund portions of the county's outstanding debt for interest savings.

In addition, Fitch assigns its 'AAA' rating to the following:

- \$493.3 million unlimited tax bonds outstanding;
- \$281.8 million limited tax obligations outstanding.

The Rating Outlook is Stable.

SECURITY

The pass-through toll revenue and limited tax bonds are payable from payments received by the county pursuant to a pass-through toll agreement between the county and the Texas Department of Transportation (TxDOT), and are also secured by a property tax limited to \$0.80 per \$100 of TAV. The series 2011 refunding bonds also are secured by the limited property tax. The outstanding unlimited tax bonds are secured by an unlimited ad valorem tax levied against all taxable property in the county.

KEY RATING DRIVERS

Exemplary Financial Profile: Despite growth pressures, financial performance has consistently been strong, benefiting from conservative fiscal stewardship and budgeting practices. The county maintains ample reserves in a number of funds, well in excess of stated policies.

Stable Regional Economy: While not immune from the effects of the economic downturn, the Austin metropolitan employment base is broad and continues to outperform much of the country. The county's own economy continues to diversify, with unemployment rates below state and national averages.

Slowing Tax Base Growth: Taxable assessed valuation (TAV) growth had been solid, spurred by affordable home prices and ample developable land, but growth slowed beginning in fiscal 2010. Wealth indices are above average and the population continues to record steady gains.

High Overall Debt: Direct debt ratios are moderate, although overall levels are high, reflecting issuance by the large number of fast-growing school districts, cities, and special districts within the county.

CREDIT PROFILE

Williamson County has been one of the fastest growing counties in the state and nation. Currently estimated at more than 420,000, the county's population has grown nearly 70% since 2000, fueled by its location within the growing and diverse Austin metropolitan economy as well as the availability of ample and affordable housing. The county's TAV experienced double-digit growth from fiscal 2006 - 2009. However, in fiscal 2010, the county's TAV growth slowed considerably, primarily due to a reduction in personal property values (i.e. inventory). TAV posted a modest decrease of 1% for fiscal 2011 to roughly \$33.4 billion, but reversed course with a nearly 2.5%

increase for fiscal 2012. Property tax collections remain strong, with fiscal 2011 collection rates consistent with historically strong levels.

The county's own economic base has grown significantly within the last decade; substantial population gains and residential development have resulted in expansion of the retail, higher education, and healthcare sectors. Williamson County also benefits from the number of large high technology (high tech) firms located within the area, including the corporate headquarters of Dell Inc. (Fitch issuer default rating of 'A' with a Stable Outlook). While there has been some contraction in high tech manufacturing, county and regional unemployment rates remain below state and national averages. The August 2011 county unemployment rate was 7.5%, unchanged from last year's rate at that time, and below the 8.4% and 9.1% rates of the state and nation, respectively. In addition, the county's employment force continues to grow, with a 1.3% increase posted between August 2010 and August 2011. Median household income figures for the county are significantly higher than the state and U.S. averages.

Solid Financial Reserves

The county's financial position and conservative fiscal stewardship remain important credit strengths. The county consistently posts unreserved general fund balances well in excess of its 30% minimum policy goal. For the close of fiscal 2010, the county recorded an unreserved general fund balance of \$59 million, or 50% of spending. In addition, the county maintains high reserve levels in the debt service and road and bridge funds. Unaudited fiscal 2011 results indicate a roughly \$7.4 million increase to general fund balance, up from the \$4 million surplus projected earlier. Management reports this result is due to better than budgeted performance for both revenues and expenditures. The fiscal 2012 budget was balanced without layoffs, a hiring freeze, or any program reductions. Historically, the county has utilized a portion of its beginning balance to offset budgetary shortfalls. However, through conservative budgeting practices and a solid revenue performance, county administrators now are anticipating positive operating results for the year and a boost to reserves in the \$2 - 3 million range.

Pass-Through Toll Revenues

In August 2006, the county and TXDoT executed a pass-through agreement, which calls for the county to manage six projects to improve the toll and non-toll state highway system. TXDoT's pass-through program is an established financing vehicle which allows local governments and private entities to accelerate street and road improvement projects. In return, local governments are eligible to receive reimbursement from TXDoT for a significant portion of project costs upon substantial completion. TXDoT has pledged to pay to the county \$0.10 per vehicle-mile traveled on the roadway. Upon substantial completion of an entire project, TXDoT will pay the county annually a minimum of about \$7.6 million and a maximum of \$15.2 million; the total maximum project reimbursement amount from TXDoT is \$151.9 million. The payments by TXDoT are subject to appropriation by the Texas Legislature. The cumulative TXDoT obligation is expected to represent up to 88% of projected costs, with such costs funded from proceeds of the series 2009 and 2010 bonds and the current offering; the 2006 parity bonds represent the county's share of program participation and will continue to be paid from county tax receipts.

A delay in project completion and acceptance poses the greatest risk for the county, along with the unlikely possibility of TXDoT's failure to appropriate reimbursements in a timely manner. However, concerns are mitigated by the strength of the county's limited tax pledge and substantial financial resources. Upon completion of all projects, it is estimated that TXDoT's maximum annual reimbursement would total approximately \$12.6 million (in 2025), representing a small share of the county's available reserves. In addition, the tax impact of \$0.025 per \$100 TAV for the entire reimbursement (in the event of non-appropriation) is relatively minor, with ample taxing margin available to the county if needed. Further, the pass-through program incorporates a one year lag between reimbursement and the debt service payment date, providing additional flexibility.

High Debt Burden

Direct debt ratios are moderate and the pace of principal amortization is average. Overall debt climbs to high levels, reflecting significant issuance by the 16 school districts, 26 special districts, and 13 cities located or partially located within the county; overall debt currently is \$7,950 per

capita or 8.8% of total market value. This toll-revenue bond borrowing, which will finance various roadway projects in the county, exhausts the county's pass-through toll revenue program. No debt service tax rate impact is expected from this sale, with a conservative TAV projection of no growth until fiscal 2015. County officials reported only minor capital improvement projects planned for the medium term.

Affordable Pension Liabilities

The county provides pension benefits through the Texas County and District Retirement System (TCDRS). Funding levels are satisfactory at nearly 85% (77% using a more conservative 7% investment return assumption), and the county routinely funds 100% of its annual required contribution (ARC) to TCDRS. In fiscal 2010 the county paid \$7.6 million into TCDRS, or a manageable 7% of spending.

The county provides other post-employment benefits (OPEB) through a self-funded single-employer plan. Funding has been very low over the past three fiscal years, with contributions well under the ARC (10% in fiscal 2010). Fitch notes the low funding levels as an ongoing credit concern. However, concerns are mitigated in part due to the relatively small OPEB liability; the unfunded actuarial accrued liability is still modest at \$36.5 million, or a manageable 52.4% of covered payroll.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, National Association of Realtors, Underwriter, Bond Counsel, Underwriter Counsel, Trustee, and the Municipal Advisory Council of Texas.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 15, 2011);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842

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