S&P Global
Ratings

RatingsDirect®

Summary:

Wise County, Texas; General Obligation

Primary Credit Analyst:
Calix Sholander, Englewood + 1 (303) 721 4255; calix.sholander@spglobal.com

Secondary Contact:
Sam Krouse, Austin (1) 214-871-1409; sam.krouse@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Related Research

Summary:

Wise County, Texas; General Obligation

Credit Profile		
US$9.55 mil tax nts ser 2024 due 02/15/2029		
Long Term Rating	AA+/Stable	New
Wise Cnty certs of oblig ser 2019 dtd 06/01/2019 due 02/15/2035		
Long Term Rating	AA+/Stable	Upgraded
Wise Cnty ICR		
Long Term Rating	AA+/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its issuer credit rating (ICR) on Wise County, Texas to 'AA+' from 'AA'.
- At the same time, we raised our long-term rating on the county's series 2019 certificates of obligation to 'AA+' from 'AA'.
- In addition, we assigned our 'AA+' long-term rating to the county's proposed $9.5 million series 2024 tax notes.
- The outlook is stable.
- The upgrades reflect the county's continued economic expansion, available reserves that have improved to very strong levels, and adoption of more formalized financial management policies and practices.

Security

An ICR reflects an obligor's general creditworthiness, focusing on its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation because it does not consider the obligation's nature and legal covenants, standing in bankruptcy or liquidation, statutory preferences, or legality and enforceability.

A limited ad valorem tax, levied on all taxable property within the county, secures the notes and the certificates of obligation. Counties in the State of Texas 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 maximum tax rate. We do not differentiate between the county's limited-tax debt and its general creditworthiness since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources. Note proceeds will fund various capital projects and equipment and vehicle purchases. The notes have been assigned a long-term rating given the maturity date of greater than 36 months and because repayment is not reliant on the proceeds of future bond or note issuance.

Credit overview

Benefitting from its location on the outer edge of the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA), Wise County has experienced rapid AV growth, primarily fueled by residential development. In conjunction with the county's conservative budgeting practices, the rapid AV growth has helped contribute to the county's strong budgetary performance and available general fund reserves increasing to levels that we consider very strong. With several large residential developments ongoing and given the county's track record of positive operating results, we expect these trends will continue over the outlook period. In addition, despite the rapid residential growth, the county has maintained a very strong debt profile, as much of the public infrastructure needed for these developments falls to the cities or municipal utility districts where the development is occurring.

The rating also reflects our view of the county's:

- Strong and improving income and market value per capita metrics, with a diversifying property tax base and rapidly growing population;
- Positive operating results leading to available general fund reserves increasing above the county's 20% fund balance policy level;
- Financial Management Assessment (FMA) improving to good with the adoption of debt-management and fund-balance policies, and a strong institutional framework score; and
- Low debt profile, with historical issuance of tax notes every five years and rapid amortization. Pension and other postemployment benefits (OPEB) costs are not a credit pressure.

Environmental, social, and governance

The county's environmental, social, and governance (ESG) factors are neutral considerations in our credit rating analysis.

Outlook

The stable outlook reflects our view that the county will continue to maintain a very strong available fund balance with revenue growth helping to offset any potential service level increases from the ongoing economic and population growth.

Downside scenario

We could lower the rating if persistent operating deficits lead to a significant decline in the county's available reserves, with no plan to restore.

Upside scenario

We could raise the rating if economic expansion leads to income metrics improving to levels comparable with those of higher-rated peers and the county formalizes long-term financial and capital planning.

Credit Opinion

Residential development drives rapid AV growth

Located within the northwest portion of the Dallas-Fort Worth-Arlington MSA, the county has experienced rapid AV growth, averaging 26% growth over the past two years. Single-family residential development has been the biggest contributor to the AV growth, increasing 61% over the past two years and now comprising 30% of overall AV compared with 18% a decade ago. The recent increase in residential and commercial development has also diversified the county's tax base away from oil and gas production and limestone quarrying, which now account for less than 10% of AV compared with 23% in 2014. Oil and gas production has historically contributed to volatility in the county's AV, and we, therefore, expect the county's tax base will be more stable in the future given its diminished reliance on that industry. County officials expect AV growth will remain strong, as thousands of residential properties are expected to be built over the next several years, including the 10,000 home Reunion and Bluestem master planned developments located outside the City of Rhome. Given the prospects for further AV growth, our view of the county's economy could improve to what we consider very strong over the outlook period, if market value per capita exceeds $195,000.

Trend of operating surpluses lead available reserves to increase to very strong levels

With operating surpluses in five of the past six fiscal years, the county has improved available reserves to levels that we consider very strong. Over this time, the county has exhibited conservative budgeting practices with actual results consistently outperforming budgeted figures. With property taxes accounting for 59% of general fund revenue in fiscal 2022, the county's strong budgetary performance has also benefitted from rapid AV growth. Draft audited results for fiscal 2023, show another general fund surplus, and county officials also expect positive results in fiscal 2024. Given the county's track record of better-than-budgeted performance and the likelihood of continued strong AV growth, we expect the county will continue to exhibit strong budgetary performance while maintaining very strong reserves above its 20% fund balance policy, over the outlook period.

The county has one privately placed debt obligation outstanding. However, we do not view it as a contingent liquidity risk, as there are no nonstandard events of default or acceleration provisions. We expect the city's liquidity will remain very strong over the outlook period.

FMA improves to good with the adoption of more formalized financial management policies and practices

We revised our FMA for the county to good from standard based on the county's adoption of formalized debt-management and fund-balance policies.

Highlights include:

- Revenue forecasts based on preliminary AV figures and expenditure line items adjusted for new programs and growth, with consistently better-than-budgeted general fund performance;
- Monthly budget-to-actual reports provided to the Commissioners Court, with the ability to amend the budget throughout the year, if needed;
- A formal investment management policy with investments reported the Commissioners Court monthly;
- A debt management policy that states a maximum debt service carrying charge of 20% of budgeted expenses and a

maximum level of net debt outstanding of 25% of net taxable real property value, as well as provides guidelines for net present value savings and amortization schedules; and

- A policy to maintain a minimum unassigned fund balance equal to 20% of budgeted expenditures and no more than 30%.

The county does not maintain a formal long-term financial forecast and capital planning is largely tied to the county's issuance of tax notes (typically every five years). The county has taken steps to help mitigate its exposure to cyber-security risks.

Low debt burden, with rapid amortization and no immediate additional debt plans

Although Wise County continues to experience rapid residential and commercial development, this has not pressured the county's capital needs, allowing it to maintain a very strong debt profile. The county historically has issued tax notes every five years for its capital needs and expects to continue this practice. With no immediate plans for additional debt, we expect the county's debt profile will remain very strong over the outlook period.

Wise County also has $19.6 million in lease revenue bonds outstanding that we incorporate into our debt calculations but that we do not rate.

Well-funded pension plan and limited OPEB liability

We do not view the county's pension and OPEB costs as an immediate source of budgetary pressure, as the county's pension plan is well-funded and the OPEB liability is limited.

The county participates in the following plans (with a Dec. 31, 2021, measurement date):

- Texas County and District Retirement System (TCDRS), with a 104% funded ratio using a 7.6% discount rate and a net pension asset of $4.8 million.
- Group Term Life fund operated by TCDRS, funded on a pay-as-you-go basis with a net OPEB liability of $1.1 million.

For more information, see "Pension Spotlight: Texas," published April 4, 2023, on RatingsDirect.

Wise County, Texas--key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Strong economy				
Projected per capita EBI % of U.S.	95.3			
Market value per capita ($)	191,415			
Population		72,545	72,055	69,648
County unemployment rate(%)		3.5		
Market value ($000)	13,886,210	8,758,193		
Ten largest taxpayers % of taxable value	15.4			
Strong budgetary performance				
Operating fund result % of expenditures		2.6	-0.5	6.1
Total governmental fund result % of expenditures		2.9	-1.0	3.5

Wise County, Texas--key credit metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Very strong budgetary flexibility				
Available reserves % of operating expenditures		20.7	20.1	22.9
Total available reserves ($000)		8,597	7,623	7,960
Very strong liquidity				
Total government cash % of governmental fund expenditures		48.1	31.9	31.7
Total government cash % of governmental fund debt service		652.6	606.9	746.3
Strong management				
Financial Management Assessment	Good			
Very strong debt and long-term liabilities				
Debt service % of governmental fund expenditures		7.4	5.3	4.3
Net direct debt % of governmental fund revenue	55.6			
Overall net debt % of market value	3.1			
Direct debt 10-year amortization (%)	91.4			
Required pension contribution % of governmental fund expenditures		5.3		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

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

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.