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Ratings

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Summary:
Bee County, Texas; General Obligation

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Summary:

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Credit Profile		
US$2.74 mil GO rfdg bnds ser 2020 due 08/15/2025		
Long Term Rating	AA-/Negative	New
Bee Cnty GO (AMBAC)		
Unenhanced Rating	NR(SPUR)	

Rating Action

S&P Global Ratings has revised its outlook to negative from stable and affirmed its AA-' rating on Bee County, Texas' general obligation (GO) debt and certificates of obligation outstanding. At the same time, we assigned our 'AA-' rating to Bee County, Texas' $2.74 million series 2020 general obligation refunding bonds.

The negative outlook reflects the decline in the stabilizing influence of the state correctional facilities, due to negative inmate population trends, with the recent closure of one facility. In addition, there have been sizable cost overruns related to the construction of the county's new jail. Also contributing to our outlook revision is the potential for revenue loss associated with sales taxes as a result of COVID-19 recessionary pressures with sales taxes down 9% year-over-year as of June. Though the county has a high 45% fund balance, continued pressure on revenues or expenses could pressure the rating.

Bond proceeds will be uses to refund existing debt for interest savings. Revenue from Bee County's direct and continuing ad valorem tax, levied on all taxable property in the county, within the limits prescribed by law, secures the 2020 bonds. Counties in 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 80 cents maximum tax rate. Based on the application of our criteria, titled "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 rating 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 Bee County's overall ability and willingness to pay debt service. After this issuance, the county will have approximately $26 million of net direct outstanding.

Revenue from Bee County's direct and continuing ad valorem tax, levied on all taxable property in the county, in addition to pledged revenues from the county's solid waste management system, secures the series 2017 certificates. However, we rate the certificates based on the county's GO pledge, which we view as the stronger pledge.

Credit overview

Located 25 miles northwest of Corpus Christi, Bee County has a limited economy, based mostly on agriculture and oil production (mostly pipelines). Weak economic indicators are offset somewhat by the stabilizing influence of correctional facilities though one facility recently closed. Construction of the new county jail, financed by the county with 2017 certificates, was delayed and there were approximately $900,000 of cost overruns contributing to an unexpected $100,000 drawdown on general fund reserves in 2020. However, the project is nearly complete, capping the potential for further cost increases. In addition, $700,000 remaining in the bond fund will be used to fund outstanding construction costs of the new jail, with no further general fund drawdowns expected in fiscal 2021. High reserves and strong liquidity support the rating; however if economic pressures from the current COVID-19 pandemic persist, further weakening the economy and finances, there could be pressure on the rating.

The rating reflects our assessment of the county's:

- Very weak economy, with market value per capita of $52,935 and projected per capita effective buying income at 61.7% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment 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 45% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.1% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 12.3% of expenditures and net direct debt that is 124.4% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance factors

We view governance and environmental and social risks as in line with our view of the sector. Our rating action incorporates our view regarding the indirect recessionary pressures associated with the health and safety risks posed by the COVID-19 pandemic.

Negative Outlook

The negative outlook reflects our view that there is a one in three chance we could lower the rating within the next two years. Continued declines in the inmate population, leading to weakening of the stabilizing influence of correctional facilities could put pressure on an already weak economy. In addition revenue losses stemming from COVID-19 induced recessionary effects or unexpected expenditure increases related to the new jail, leading to sizable declines in the fund balance could pressure the rating. However, if the county maintains its fund balance and the economy remains stable despite recessionary headwinds from the current pandemic, we could revise the outlook to stable.

Credit Opinion

Very weak economy

We consider Bee County's economy very weak. The county has an estimated population of 32,888. The county has a projected per capita effective buying income of 61.7% of the national level and per capita market value of $52,935. We believe income levels are somewhat artificially depressed by the inmate population. Overall, the county's market value grew by 9.4% over the past year to $1.7 billion in 2020. The county unemployment rate was 4.4% in 2019 but higher in April 2020 at 13%, though lower than the U.S. rate of 14.4% for the same time period.

Spanning an area of 880 square miles, Bee County is located roughly 90 miles southeast of San Antonio and 50 miles northwest of Corpus Christi, along State Highway 181. The City of Beeville serves as county seat and the principal commercial center. The local economy is primarily based in agriculture, criminal justice, and education, with the largest employers represented by the Texas Department of Criminal Justice (1,396 employees), Beeville Independent School District (ISD; 5,291), Coastal Bend College (518), and Mathis ISD (280) in fiscal 2018. Two state correctional facilities, the Garza West and McConnell units, constitute stabilizing institutions in our view, housing 4,870 inmates, or 14.8% of county population in 2019. The state closed the Garza East facility in May due to declining inmate populations and understaffing but indicated that employees were offered jobs at nearby facilities. The Garza West facility remains open.

The county continues to experience exposure to the oil and gas industry, accounting for 27.7% of 2019 AV. While these payers do not maintain large employee bases within the county, a significant amount of infrastructure remains in the form of pipelines and facilities. Though the tax base is less volatile than one that relies on drilling companies, AV values still reflect the rise and fall in mineral values, falling 6% in fiscal 2018 and then increasing 11% since then to $1.74 billion. Preliminary AV estimates for fiscal year 2021 of $1.79 billion show a flattening trend again and future values could be further pressured given pressures on the price of oil due to current pandemic.

The county currently has seen some economic development in the area with a recently completed wind farm and discussions for another one, pipelines being laid and new businesses opening their doors though sales taxes were down 9% through June 2020.

Adequate management

We view the county's management as adequate, with standard financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Bee County management uses conservative assumptions to generate its annual budget, examining 10 years of historical trend data to project revenues and expenditures for the following fiscal year. Input from outside sources is used to anticipate any potential deviations from current trends. Budget to actual results are provided to the governing body monthly, with amendments possible as needed. The county maintains a formal investment policy in accordance with Texas statutes, and presents quarterly investment updates to the governing body. Additionally, the county's formal reserve policy, implemented for budget stability and cash flow purposes and to which it has historically adhered, requires the maintenance of an unassigned general fund balance equal to 25% of expenditures. The county does not currently perform any formal long-term financial or capital planning, nor does it maintain a formal debt management policy.

Adequate budgetary performance

Bee County's budgetary performance is adequate in our opinion. The county had operating surpluses of 11.9% of expenditures in the general fund and of 12.6% 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 and that pressures resulting from the pandemic and recession could still pose budgetary challenges.

In assessing the county's budgetary performance, we adjusted for recurring transfers into and out of the general fund, and for expenditures toward one-time capital projects.

Bee County has historically produced strong budgetary performance results, largely due to conservative budgeting practices in which deficit budgets are adopted and year-end results exceed expectations. The county posted surpluses in fiscal years 2017, 2018, and 2019 due in part to increasing sales tax revenues and fines (in fiscal years 2018 and 2019) as well as turnover in sheriff's office and jail that resulted in salary savings. In fiscal 2019, the county generated a $1.4 million surplus.

Property taxes account for the majority of revenue at 60%, followed by sales and uses tax for 13% and intergovernmental revenues for 9%. Property tax collections have seen steady growth the past three years, with collections to date up 11% over last year and 95% of budgeted amounts. Sales taxes are down 9% year to date but with the state reopening in the beginning of May are expected to rebound somewhat. Though officials have not adjusted the budget for the decline in sales taxes to date, they expect some of it to be offset by the receipt of about $280,000 in CARES funds.

For fiscal 2020, the district expects to end the year with a $100,000 deficit, reflecting a $200,000 transfer to the jail construction fund due to cost overruns. Officials indicate that cost overruns currently total $900,000 with the remainder to be funded out of remaining bond funds. According to officials this unexpected transfer has been partly offset by salary savings related to turnover in the sheriff's office and jail that continue to be carried forward until the positions are fully staffed. Officials expect the jail to be completed in the next couple of months. In addition, with the state reopening at the beginning of May, sales taxes are expected to rebound somewhat. We expect budgetary performance to remain adequate, reflecting both the unexpected cost overruns related to construction of the new jail as well as potential recessionary pressures related to the ongoing pandemic.

Very strong budgetary flexibility

Bee County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 45% of operating expenditures, or $5.2 million.

The county has strengthened reserves over the last three years, maintaining reserves in excess of its 25% formal reserve policy and exceeding 30% of operating expenditures in the three most recent fiscal years. The county is intentionally drawing on reserves to fund the cost overruns for the new jail though no draws are expected for 2021. Given our view that management is committed to its formal fund-balance policy and will not spend beyond the 25%

target, it is our opinion that the county will maintain very strong budgetary flexibility in the near-term. However, significant further unexpected cost overruns and further recessionary pressures due to COVID-19 could cause the fund balance to dip below 30%.

Very strong liquidity

In our opinion, Bee County's liquidity is very strong, with total government available cash at 44.1% of total governmental fund expenditures and 3.6x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

Bee County has demonstrated strong external liquidity by its access to the market over the past three decades, hallmarked by numerous GO-backed bond issuances in recent years. It has historically maintained what we consider very strong cash balances, and given our expectation for balanced operations, we do not believe its cash position will materially weaken in the near term. Currently, all of the county's investments comply with Texas statutes, as well as its internal investment policy. At fiscal year-end 2019, the county's investments were held in money market accounts, taxable and tax-exempt bonds, and local government investment pools--none of which we view as aggressive. In addition, the county has no exposure to contingent liabilities that could pose a liquidity risk.

Weak debt and contingent liability profile

In our view, Bee County's debt and contingent liability profile is weak. Total governmental fund debt service is 12.3% of total governmental fund expenditures, and net direct debt is 124.4% of total governmental fund revenue. The county does not have plans to issue additional debt over the next two to three years.

We do not view pension and other postemployment benefits (OPEB) obligations as likely to pressure the county's budget over the outlook period, given the pension plan's well-funded status (though assumptions are aggressive) and the county's limited OPEB liability.

The county participates in the following plans:

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 101% funded with a net pension asset equal to $438,000, although several assumptions are aggressive in our view. Contributions are actuarially determined, and the county has recently contributed amounts in excess of the annual required costs. Plan contributions were covered 121% of our minimum funding progress guideline. Actuarial assumptions include an 8% discount rate and 4.9% payroll growth assumption, both of which we view as aggressive, and 12.8-year closed amortization period.

Bee County's pension contributions totaled 1.9% of total governmental fund expenditures in 2019. The county made its full annual required pension contribution in 2019. OPEB expenditure was only 0.05% of total governmental fund expenditures.

Bee County participates in the retiree Group Term Life (GTL) program for the Texas County & District Retirement System (TCDRS), which is a statewide, multiple-employer, public employee retirement system. Contributions made to the retiree GTL program are held in the GTL fund. The GTL fund does not meet the requirements of a trust under Paragraph 4b of GASB 75, as the assets of the GTL fund can be used to pay active GTL benefits, which are not part of the OPEB plan.

Strong institutional framework

The institutional framework score is strong.

Ratings Detail (As Of June 26, 2020)		
Bee Cnty certs of oblig ser 2017 dtd 09/15/2017 due 08/15/2047		
Long Term Rating	AA-/Negative	Affirmed
Bee Cnty GO		
Long Term Rating	NR	
Bee Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.