S&P Global Ratings

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Research Update:

Washington County, TX Series 2026 Certificates Of Obligation Rated 'AA'; Outlook Stable

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Overview

- S&P Global Ratings has assigned its 'AA' long-term rating to Washington County, Texas' approximately $61 million series 2026 certificates of obligation.
- The outlook is stable.

Rationale

Security

The certificates are payable from an ad valorem tax levied on all taxable property in the county, within the limits prescribed by law. The maximum allowable ad valorem tax rate for Texas counties is 80 cents per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to 40 cents. Washington County's levy is well below the maximum at 30.4 cents per $100 of AV. While the county does not currently levy for debt service, the tax rate is expected to be no more than four cents. Although the tax rate is limited, we do not believe the taxable base is measurably smaller, and we believe resources are fungible. Therefore, we do not differentiate between the county's limited-tax GO debt and its general creditworthiness.

The Washington County will use debt proceeds primarily for the construction of a new justice center and a new expo arena.

Credit highlights

The rating reflects the county's stable local economy, robust financial position and general fund reserve balance, combined with a manageable debt and liabilities burden.

Located about halfway between Houston and Austin, the local economy is largely based on agriculture, manufacturing, and some tourism. Recent developments include a residential subdivision that will include 900 single-family homes once completed, as well as several commercial and retail developments. We expect this expansion will contribute to continued economic growth and fiscal stability. The county's finances have historically been positive, although a deficit in fiscal 2024 was primarily due to a larger than normal transfer out to support the county's Emergency Medical Services (EMS) fund, which faced delayed reimbursements for services provided. In fiscal 2025, the EMS fund was absorbed into the general fund, and the delayed cost reimbursements contributed to an operating surplus. For fiscal 2026 (year ending Dec. 31), the county's adopted budget reflects a deficit; however, we anticipate conservative assumptions will result in breakeven operations. We expect the county will maintain its sizable reserve position.

The 'AA' rating further reflects our view of the following credit factors:

- The county's stable local economy supports ongoing growth and diversification of the tax base with average per capita incomes and gross county product levels compared with those of national and state peers.
- Generally positive operating performance has led to the maintenance of sizable reserve levels that exceed five months of operations, well above its minimum level codified in policy.
- Budgeting practices include the use of historical data and known changes. Management balances departmental budget requests and provides monthly budgetary updates to the county commission. While the county has established a five-year strategic plan, it has not formally completed capital and long-term financial forecasting. Formally adopted policies are in place for minimum reserve levels (15%-25% of operations) and investment management, but there is not a formal debt management policy. The investment policy mirrors state guidelines with monthly reports of holdings and earnings shared with the commissioner's court.
- The county's debt and liabilities profile is low, although we expect it will increase with the current issuance. The amortization of the series 2026 bonds is slow, with less than 20% of principal retired within 10 years, while costs are likely to grow to 11% of governmental fund revenues. There are no near-term plans to issue additional debt. Pension and other postemployment benefits costs are not an immediate source of credit pressure in our view, due to the county's historically strong funding discipline and funded status of the Texas County and District Retirement System plan.
- Although physical risks are relevant for the local government sector, and we consider Washington County's exposure to extreme heat and drought slightly above that of national peers, we do not view them as a material factor in our credit analysis.
- For more information on our institutional framework assessment for Texas counties, see "Institutional Framework Assessment: Texas Local Governments," Sept. 9, 2024.

Outlook

The stable outlook reflects our view that reserves will remain robust and fixed costs will remain manageable during our two-year outlook horizon, despite the significant debt issuance.

Downside scenario

We could consider a lower rating if budgetary imbalance or a significant spend down for one-time purposes results in a sharp decline in general fund balance.

Upside scenario

We could consider a higher rating if economic growth leads to improved per capita incomes and gross county product measures, combined with the additional formalization of financial policies and planning.

Washington County, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.10
Economy	2.0
Financial performance	2
Reserves and liquidity	1
Management	3.00
Debt and liabilities	2.50

Washington County, Texas--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	99	--	99	105
County PCPI % of U.S.	99	--	99	102
Market value ($000s)	8,064,173	7,391,311	6,958,639	6,245,849
Market value per capita ($)	222,001	203,477	191,566	172,876
Top 10 taxpayers % of taxable value	13.3	16.4	13.2	14.8
County unemployment rate (%)	3.9	3.9	3.8	3.8
Local median household EBI % of U.S.	104	--	104	97
Local per capita EBI % of U.S.	108	--	108	101
Local population	36,325	--	36,325	36,129
Financial performance				
Operating fund revenues ($000s)	--	40,963	29,440	27,473
Operating fund expenditures ($000s)	--	40,905	24,504	21,384
Net transfers and other adjustments ($000s)	--	1,210	(5,453)	(1,620)
Operating result ($000s)	--	1,268	(517)	4,469
Operating result % of revenues	--	3.1	(1.8)	16.3
Operating result three-year average %	--	5.9	8.5	11.4
Reserves and liquidity				
Available reserves % of operating revenues	--	44.4	57.4	66.6
Available reserves ($000s)	--	18,174	16,899	18,295
Debt and liabilities				
Debt service cost % of revenues	--	2.4	2.2	2.4
Net direct debt per capita ($)	1,748	69	71	74
Net direct debt ($000s)	63,506	2,506	2,569	2,659
Direct debt 10-year amortization (%)	19	86	84	83
Pension and OPEB cost % of revenues	--	4.0	4.0	4.0
NPLs per capita ($)	--	7	7	87
Combined NPLs ($000s)	--	249	249	3,146

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$61.000 mil certs of oblig ser 2026 dtd 9/9/2026 due 8/15/2056	
Long Term Rating	AA/Stable
New Rating	
Local Government	
Washington Cnty, TX Limited Tax General Operating Pledge	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.