Research Update:

Grayson County, TX's Series 2025 Tax Notes Assigned 'AA' Rating; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Grayson County, Texas' approximately $5 million tax notes, series 2025.
- At the same time, we affirmed our 'AA' long-term rating on the county's general obligation debt and certificates of obligation outstanding.
- The outlook is stable
- The ratings are based on the application of our "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.

Rationale

Security

The notes and certificates are payable from revenue from a direct and continuing ad valorem tax on all taxable property in the county, within the limits prescribed by law. The Texas Constitution imposes a limit of 80 cents per $100 of assessed valuation (AV) for all purposes, including debt service. The county levies a total tax rate of 30.5 cents as of fiscal 2025, with 1.9 cents dedicated for debt service, well below the limits prescribed. The certificates outstanding are additionally secured by net surplus revenue from vehicle registration fees levied by the county, not to exceed $1,000. Given the limited revenue pledge, we rate the certificates based on the county's ad valorem pledge.

Revenue from the county's direct and continuing ad valorem tax, within the limits prescribed by law, and from a pass-through toll agreement with the Texas Department of Transportation (TXDOT) secure the series 2013 pass-through toll revenue and limited tax refunding bonds. The agreed-on reimbursement rate is 15 cents per vehicle mile with a guaranteed minimum payment of $5.3 million annually. The maximum annual reimbursement is $7.0 million, not to exceed $84.5 million during the course of the agreement. S&P Global Ratings views this debt as self-supporting, as the county already receives reimbursement payments from TXDOT. However, we rate the bonds to the county's limited tax pledge as we lack sufficient information to rate the bonds based on the TXDOT reimbursements.

Based on the application of our "Issuer Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Nov. 20, 2019, we rate the county's notes, limited tax bonds, and certificates at the same level as the issuer credit rating because of our view of the fungibility of the county's resources and its ability to manage those resources, supporting our view of its overall ability and willingness to pay.

Proceeds from the series 2025 tax notes will fund various vehicle and equipment purchases, as well as cover costs for the relocation of the county's probation office.

Credit highlights

The rating reflects our view of the county's stable financial profile and solid management that we expect will enable sustained positive performance. The rating also reflects the county's below-average economic indicators that we expect will improve over the coming years, spurred by large-scale industrial and residential developments that are occurring.

Located along the Texas-Oklahoma border, north of the Dallas-Fort Worth metroplex, the county serves as a regional economic hub for surrounding areas. While the area has historically centered on agribusiness and manufacturing, recent developments are expected to result in significant tax base, population, and employment growth. Texas Instruments (TI) and GlobalWafers have both undertaken significant manufacturing projects that, at completion of the multiphase developments, will add more than $30 billion in taxable value and create nearly 4,000 jobs. To support the sharp increase in employment, county officials report that there are multiple housing projects in various stages of planning and development, including Preston Harbor that will feature 10,000 housing units, a large-scale resort, and other amenities. While the per capita gross county product (GCP) and personal incomes are below average, we expect that the ongoing developments will improve these metrics over the coming years.

The economic developments are also leading to budgetary growth. The county's operating budgets have increased, but management has ensured that operations remain balanced. Fiscal 2024 results reflected a modest operating surplus, driven largely by conservative expenditure assumptions. For fiscal 2025, the county's adopted budget (and current year-to-date estimates) reflects a more than $4 million surplus (roughly 7% of budgeted expenses), driven in large part by property tax revenue growth. While the county is party to tax abatement agreements with both TI and GlobalWafers, the abatements won't be fully reflected until 2026. However, county officials don't expect material budgetary pressure as property tax valuations (which account for more than 80% of the budget) are expected to grow from non-abated developments. Given this, we anticipate that reserve levels will remain in excess of the county's 20% floor and that budgetary surpluses are likely within our outlook horizon.

The rating further reflects our view of the following factors:

- The tax base is diverse, and we expect it will grow materially over the coming years; however, we note that per capita incomes and GCP figures currently lag those of similarly rated peers.
- We expect financial performance and reserves and liquidity will remain credit strengths, with a history of positive budgetary results and reserves in excess of the county's formal policy level.
- Financial policies and practices include historical trend analysis and informed budget assumptions, with monthly reports on budgetary progress shared with the governing body.

Formal policies adopted include an investment management policy and a formal reserve policy, set to at least 20% of operating expenditures. However, we note that the county is currently lacking formal long-term planning.

- The direct debt burden is affordable, and the county is amortizing all of its debt over within 10 years, with no near-term plans for additional issuances.
- We do not view pension obligations as a near term credit pressure for the county.
- For more information on our institutional framework assessment for Texas counties, see "Institutional Framework Assessment: Texas Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We view the county's environmental, social, and governance factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that the county will maintain stable operations and very strong levels of available reserves, supported by economic expansion and revenue growth during the two-year outlook horizon.

Downside scenario

We could consider a negative rating action if capital demands or operational pressures result in a material reduction in reserves below the county's formal minimum, with no plan to restore them.

Upside scenario

Conversely, we could consider a positive rating action if the industrial and residential expansions that are occurring result in improved economic measures, all other factors remaining consistent.

Grayson County, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.50
Economy	5.0
Financial performance	2
Reserves and liquidity	1
Management	3.00
Debt and liabilities	1.50

Grayson County, Texas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	59	--	59	58
County PCPI % of U.S.	80	--	80	80

Grayson County, Texas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Market value ($000s)	19,732,083	16,387,070	13,492,152	10,829,032
Market value per capita ($)	139,454	115,814	95,354	77,250
Top 10 taxpayers % of taxable value	15.8	6.5	8.3	7.7
County unemployment rate (%)	3.8	3.8	3.7	3.7
Local median household EBI % of U.S.	89	--	89	90
Local per capita EBI % of U.S.	84	--	84	86
Local population	141,495	--	141,495	140,181
Financial performance				
Operating fund revenues ($000s)	--	51,869	46,936	43,501
Operating fund expenditures ($000s)	--	51,790	47,215	62,040
Net transfers and other adjustments ($000s)	--	804	745	7,175
Operating result ($000s)	--	883	466	(11,364)
Operating result % of revenues	--	1.7	1.0	(26.1)
Operating result three-year average %	--	(7.8)	(5.9)	(4.7)
Reserves and liquidity				
Available reserves % of operating revenues	--	29.1	30.2	30.1
Available reserves ($000s)	--	15,117	14,165	13,091
Debt and liabilities				
Debt service cost % of revenues	--	9.9	8.9	8.6
Net direct debt per capita ($)	245	264	312	190
Net direct debt ($000s)	34,703	37,359	44,194	26,693
Direct debt 10-year amortization (%)	100	100	--	--
Pension and OPEB cost % of revenues	--	4.0	4.0	4.0
NPLs per capita ($)	--	34	70	--
Combined NPLs ($000s)	--	4,818	9,881	--

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. 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$4.905 mil tax nts ser 2025 dtd 05/01/2025 due 08/15/2031	
Long Term Rating	AA/Stable
Ratings Affirmed	
Local Government	
Grayson Cnty, TX Limited Tax General Operating Pledge	AA/Stable
Grayson Cnty, TX Limited Tax General Operating Pledge and TX DOT Passthrough Toll Revenues	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.