

Summary:

Andrews County, Texas; General Obligation

Credit Profile

Andrews Cnty GO

Long Term Rating

A+ / Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Andrews County, Texas' outstanding series 2010 permanent improvement bonds to 'A+' from 'A' based on our local general obligation criteria (GO) released Sept. 12, 2013. The outlook is stable.

The county's annual ad valorem property tax pledge secures the bonds. County officials used series 2010 bond proceeds to acquire real property and construct solid waste disposal facilities. The county leases the facilities to Waste Control Specialists LLC (WCS), which we understand operates the facilities under appropriate licenses to dispose of hazardous waste and low-level nuclear waste. The county does not currently levy a property tax dedicated for debt service. Because the county's GO pledge secures the bonds, it is obligated to levy a property tax to pay annual debt service if periodic lease payments are insufficient to pay debt service. The county is obligated to provide funding for any shortfall of lease payments through the levy of an annual ad valorem tax and the use of other lawfully available funds, which might include the prepaid final lease payment for the debt service payment. Upon the delivery of the lease, WCS paid the county a prepaid final lease payment equal to maximum annual debt service on the bonds, or \$5.4 million, as security for WCS' full and faithful performance under the lease agreement, which it must use for the payment of any rent in default or any other sum the county might expend by reason of WCS' default on its obligations. Pursuant to the county's lease agreement with WCS, WCS will make monthly lease payments to the county to pay debt service. We believe that the prepaid rent deposit is restricted solely for delinquent rent and debt service and that county officials cannot use this deposit for other purposes based on representations by the issuer. Therefore, we consider the prepaid rent deposit available liquidity restricted for debt service.

The rating reflects our assessment of the following factors for the county:

- We consider Andrews County's economy to be weak, with its projected per capita effective buying income at 79.8% of the U.S. and per capita market value of \$398,419. The county unemployment rate for calendar year 2012 was 3.7%. Andrews County is a west Texas county bordering New Mexico in the Permian Basin. The top 10 taxpayers account for a concentrated 43% of AV, primarily due to the oil and gas sector presence.
- In our opinion, the county's budgetary flexibility is very strong, with available general fund reserves at well over 30% of expenditures for the past few fiscal years, and no plans to significantly spend them down. Audited fiscal 2012 available reserves totaled about \$11.2 million, equal to about 59% of expenditures. Unaudited fiscal 2013 available general fund reserves were roughly \$11.4 million, or 51% of expenditures.
- The county's budgetary performance has been strong overall, in our view, with a surplus of 6.9% for the general

fund in fiscal 2012 and a surplus of 4.6% of total governmental funds. Unaudited results for fiscal 2013 indicate a deficit of about 4.4% in the general fund and break-even results for the total governmental funds. The fiscal 2014 budget is balanced.

- Supporting the county's finances is liquidity we consider very strong, with total government available cash at about 117% of total governmental fund expenditures and about 453% of debt service. We believe the county has strong access to external liquidity.
- We view the county's management conditions as adequate with standard financial practices.
- In our opinion, the county's debt and contingent liabilities profile is weak, with total governmental fund debt service at 25.9% of total governmental fund expenditures, and with net direct debt at about 256% of total governmental fund revenue. The county's debt burden is equal to roughly 1.6% of market value, which we consider low. Currently, the county has no plans to issue additional debt in the near term.
- The county provides pension benefits for all of its full-time employees through the statewide Texas County and District Retirement System (TCDRS), a nontraditional defined benefit pension plan. For 2012, the county contributed \$1.2 million to the employees' pension fund. The employees' pension plan is 81.7% funded as of the most recent actuarial study dated Dec. 31, 2011. County officials have historically contributed 100% of the annual required contribution. For other postemployment benefits (OPEB), the county administers a self-insured, single-employer defined benefit plan, which provides medical and dental insurance benefits. The county's OPEB annual required contribution for fiscal 2012 was \$230,862, of which the county contributed 126.2%. The county's combined pension and OPEB contribution accounted for about 6.4% of expenditures in fiscal 2012.
- We consider the Institutional Framework score for Texas cities as strong. See the Institutional Framework score for Texas.

Outlook

The stable outlook reflects our expectation that the county will continue to maintain very strong budgetary flexibility, and that limited future capital needs requiring the issuance of additional debt will allow the city's debt to market value ratio to remain low. We do not anticipate changing the rating during the two-year outlook period.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

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