Fitch Ratings

Fitch Affirms Andrews County, TX's Permanent Improvement Bonds at 'AA-'; Outlook Stable

Fitch Ratings-New York-26 September 2014: Fitch Ratings affirms the following rating of Andrews County (the county), Texas:

--$68.8 million permanent improvement bonds, taxable series 2010 at 'AA-'.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by an annual property tax levy limited to $0.80 per $100 taxable assessed valuation (TAV) on all taxable property within the county.

KEY RATING DRIVERS

TAX BASE CONCENTRATION: The county's tax base is heavily concentrated in mineral values. Overall tax base growth has been healthy but demonstrates vulnerability to market-driven changes in mineral valuations and related oil and gas activity.

AMPLE TAXING MARGIN: The tax rate is below average and the county maintains significant financial flexibility in its various tax levies.

SOLID FINANCIAL POSITION: Strong increases in property tax receipts and waste disposal fees have funded growth related spending needs. Reserves remain ample and capital projects are funded primarily through paygo.

MODERATE LONG-TERM LIABILITIES: Overall debt burden is modest when measured against the substantial tax base but more elevated on a per capita basis. Future tax-supported debt plans are manageable and other long-term liabilities affordable.

RATING SENSITIVITIES

SUSTAINED MINERAL VALUE LOSSES: A multi-year trend of sizeable declines in mineral values would signify fundamental deterioration in the county's tax and economic base and could lead to negative rating action.

FINANCIAL FLEXIBILITY: The rating is sensitive to the maintenance of strong reserve levels and taxing margin.

CREDIT PROFILE

Andrews County is located in far-west Texas in the Permian Basin, one of the largest mineral reserves in the U.S., about 50 miles northwest of the cities of Midland and Odessa. The county's 2013 population is estimated at 17,000 residents.

NARROW, CONCENTRATED ECONOMY

The local economy is narrow, focused on oil/gas exploration, associated industries, and agribusiness. Current economic indicators and local wealth levels are better than state and national averages, but remain vulnerable to cyclical downturns.

Drilling activity has increased significantly due to the discovery of layered Permian Basin shale plays made accessible with horizontal drilling technology. Sufficiently high oil prices make production highly economical. However, a macroeconomic scenario that involves materially and persistently lower oil prices in the long run presents substantial downside risk to the local economy.

Rapid employment gains have been fueled by surging oil and gas exploration and extraction. The county's unemployment rate has declined to a historical low of 3.1% as of July 2014, after rising sharply in 2009 to 7%, and remains well below the respective unemployment rates of 5.6% and 6.5% for the state and nation.

The county's tax base, heavily concentrated in mineral values, grew 19% in fiscal 2015 to over $7 billion. The top 10 taxpayers, of which nine are associated with oil/gas exploration, accounted for 45% of the fiscal 2013 tax base and are led by Exxon Mobil Corporation at 12%. While the county's TAV has more than doubled since 2006, the tax base remains vulnerable to market-driven changes in mineral valuations and related drilling activity, evidenced by the 20% drop in TAV in fiscal 2010. Management estimates additional tax base gains will be realized over the near term, an expectation that Fitch views as reasonable given the current and projected drilling activity and market trends.

SOLID FINANCIAL POSITION

The county's sound financial position is underscored by its strong reserve levels. Property taxes provide nearly all of the county's operating revenues and the county maintains significant financial flexibility under its various tax levies allowed by state statute. Management budgets conservatively and actual results typically outperform budgeted numbers.

The county's unrestricted general fund balance has exceeded 65% of spending, in excess of the 50% policy, since fiscal 2008. Fiscal 2013 results were generally comparable with a $15.5 million unrestricted general fund balance that equaled about 66% of spending. For fiscal 2014, management expects to close the year with a modest addition to general fund reserves.

The fiscal 2015 general fund budget is balanced and marks a year of significant expansion, with budgeted revenues exceeding fiscal 2014 by 16%. Additional revenues are a result of increased ad valorem tax revenue as well as $3 million in state revenue from TxDOT that will be used for road maintenance and construction. The county also benefits from a revenue sharing agreement with Waste Control Specialists, LLC (WCS), which stipulates that the county receive 5% of gross waste disposal revenues annually. The county received $1.5 million in fiscal 2014 and has budgeted the same for fiscal 2015. Such funds are designated for capital projects only, which Fitch considers prudent given their potential volatility.

The county funds debt service entirely with monthly lease payments from WCS which will continue through the maturity of the bonds, rather than levying for debt service. The county maintains an amount equivalent to one year of debt service in escrow; in case of a WCS payment shortfall, the county would use this reserve to cover debt service until a tax levy could be applied.

MODERATE LONG-TERM LIABILITIES

Overall debt is high on a per capita basis at $5,611, but more moderate when measured against the tax base at 1.5% of market value. The county issued the 2010 bonds for the full $75 million authorization that was narrowly passed by voters in May 2009. Bond proceeds were used to acquire real property that is leased by the county to WCS for the expansion of their existing hazardous waste facility in the county to include the ability to receive low-level radioactive/nuclear waste.

The Andrews County WCS facility is the only licensed site in the U.S. currently permitted to handle all three classes of low-level radioactive/nuclear waste. Recent changes to WCS' permits with the state will more than triple the amount of waste the Andrew's County site can accept, although county management believes it's unlikely that the extra capacity will be used right away.

No future borrowing is anticipated currently, although the county may issue up to $18 million for a new jail as early as 2015. Amortization of principal is slow with roughly 37% retired in 10 years.

The county contributes to the Texas County and District Retirement System (TCDRS), an agent multiple-employer plan. The county's annual required contribution (ARC) to the plan consumed a moderate 5.4% of fiscal 2013 governmental fund spending. Despite the full contribution of the ARC, the county's funded position has declined somewhat in recent years, from 90% in 2007 to 80% at the end of 2012; the 2012 figure drops to an estimated still satisfactory 72% when adjusted by Fitch using a 7% investment rate of return. The county funds its other post-employment benefits (OPEB) on a pay-as-you -go basis. The unfunded OPEB liability is small at $2.9 million or less than 1% of market value. Total carrying costs, including debt service, pension ARC, and OPEB actual payment, were high at 30.7% of fiscal 2013 total governmental fund expenditures, although much of this relates to debt service which is currently completely covered by WCS lease payments.

Contact:

Primary Analyst
Leslie Ann Cook
Analyst
+1-212-908-0507
Fitch Ratings, Inc.
33 Whitehall St.
New York, NY 10004

Secondary Analyst
Rebecca Moses
Director
+1-512-215-3739

Committee Chairperson
Arlene Bohner
Senior Director
+1-212-908-0554

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and the National Association of Realtors.