Fitch Affirms Ellis County, Texas' GOs at 'AA'; Outlook Stable

Fitch Ratings-Austin-February 15, 2013: Fitch Ratings affirms its underlying ‘AA’ rating on Ellis County, Texas’ (the county) outstanding general obligation bonds (GO) as follows:

--$54.6 million GO bonds at 'AA' (on a non-accreted basis, excluding series 2010 and 2011 GO refunding bonds which are not rated by Fitch).

The Rating Outlook is Stable.

SECURITY:
The bonds are secured by a limited ad valorem tax pledge of the county, not to exceed $0.80 per $100 of taxable assessed valuation (TAV).

KEY RATING DRIVERS

STABLE FINANCIAL PROFILE: The county maintains its sound financial position and solid reserves in line with historic trends. Conservative spending and budgeting practices typically enable financial performance that exceeds budget. Management maintains some revenue flexibility in its moderate overall tax rate.

ECONOMIC PROSPECTS FAVORABLE: Ellis County is still fairly rural but benefits from its proximity to the larger Dallas-Fort Worth economy and employment base. Local unemployment hovers slightly above the state although below the nation. Fitch believes additional economic expansion and diversification appears reasonable over the intermediate-term.

TAX BASE STAGNANT: SOME CONCENTRATION: Taxable assessed valuation (TAV) trends have been flat since the recession primarily due to a weakened housing market. The tax base has historically experienced healthy rates of growth. Taxpayer concentration is moderately high.

MIXED DEBT PROFILE: Overall debt levels are high, reflective of the area’s capital needs from rapid population gains in prior years. Nonetheless, the county maintains a slightly better than average pace of amortization and carrying costs are manageable. Management has no near-term debt plans and capital needs appear moderate, assisted by pay-go spending.

RATING SENSITIVITIES

Material deterioration in county’s stable reserve levels that provide healthy financial flexibility could lead to negative rating action.

CREDIT PROFILE
Ellis County is located in north central Texas, immediately south of and accessible to the larger Dallas-Fort Worth metro economy and employment base. Affordable land along major highways spurred residential development over the past decade, which in turn fueled rapid gains in population that is currently estimated at 153,000. Nonetheless, a sizeable portion of the county remains rural in nature. Income and wealth levels are mixed, but generally better than average.

TREND OF STABLE FINANCES

The county's financial position remains stable and comparable to prior years, characterized by solid general fund reserves. Since fiscal 2002, general fund reserves have remained at no less than 21% of spending. Property taxes provide most of the county's operating revenues. The district has generated operating surpluses in three of the last five fiscal years, assisted by conservative financial management practices and the implementation of some cost-saving measures. Drawdowns on reserves are typically due in part to pay-go capital spending.

For fiscal 2011, the county added modestly to reserves after a cumulative draw of about $1 million over the prior two fiscal years. This increased unrestricted general fund reserves slightly to $8.2 million or approximately 24% of spending. Liquidity strengthened in fiscal 2011 as well with general fund cash and investments totaling nearly $10 million or over three months of general operational spending. Management anticipates adding another $400,000 to reserves at fiscal 2012 year-end. Fiscal 2012 operating results were assisted by a modest $0.02 per $100 TAV increase to the county's relatively moderate overall tax rate, which was maintained in fiscal 2013 and has served to offset the flat TAV trends. Fitch views positively the recent adoption of a formal fund balance policy that targets reserves equal to a higher 120 days of spending as evidence of management's commitment to maintaining and enhancing its already solid financial profile.

The fiscal 2013 adopted operating budget was balanced; general fund spending remained fairly flat at $36.1 million. Year-to-date operations are reportedly running in line with budget. Over the near-term, management is proactively considering further cost-saving options, the most material of which could include the privatization of county jail operations.

YEAR-OVER-YEAR UNEMPLOYMENT DOWN; LAGGING TAXABLE VALUES REMAIN FLAT

Much of Ellis County remains rural in nature despite rapid, pre-recessionary economic expansion from affordable housing development within commuting proximity to the Dallas-Fort Worth metro area along major highway systems that include Interstate Highway 35. Some economic strengthening since the end of the recession is evident with a year-over-year decline in unemployment. At 6.4% in October 2012, unemployment levels were down from 7.7% in October 2011, remaining slightly above the state (6.2%) and below the nation's rate of 7.5%.

Although residential development has driven recent growth trends, the county also maintains a historically stable industrial base of cement and steel manufacturers as well as some large distribution centers and utility plants that represent most of the county's largest taxpayers. The top ten taxpayers contribute a moderately high 15% of TAV. Recessionary pressures on the housing market that led to significantly reduced development activity and lower home values are reflected in a trend of generally flat TAV over the past four fiscal years. Solid tax base gains from fiscal years 2003-2009 that averaged just over 10% annually halted in fiscal 2010.

Near-term projections anticipate this recently flat trend to continue with a 1% TAV gain in fiscal 2014, which Fitch believes is reasonable given very low levels of new development reported. Over the longer-term, management favorably indicates there has been developer activity on establishing infrastructure necessary to support a sizeable subdivision. This subdivision is expected to include 3,000 single-family homes and 600 multi-family residences at build-out, although Fitch recognizes that the pace of development and its subsequent impact on TAV remains uncertain given its very preliminary stage.

OVERALL DEBT BURDEN HIGH /MANAGEABLE CARRYING COSTS AND CAPITAL NEEDS

Overall debt ratios are high, reflective of the area's previous fast-paced expansion. Overall debt approximates $5,800 on a per capita basis and 6.8% of market value on a currently accreted basis, due in large part to local school district debt. However, the county's capital needs have remained manageable despite the rapid population growth due to typically annual pay-go capital spending and given the more limited scope of statutory responsibilities for a Texas county. The county has been a relatively infrequent debt issuer. Its debt profile is primarily comprised of fixed-rate debt with modest use of capital appreciation bonds. Principal amortization is slightly above-average at about 53% of principal maturing within 10 years. The county has no remaining bond authority nor other near-term debt plans.

OTHER LONG-TERM LIABILITIES MODERATE

The county's pension plan, as well as disability and death benefits, are through the Texas County and District Retirement System (TCDRS), an agent multiple-employer plan. The county has made 100% of its annual pension cost (APC) for fiscal years 2009-2011, which equaled $3.6 million in fiscal 2011. At 75%, the county’s funded position was satisfactory after adjusting for a more conservative 7% investment rate of return.

The county also provides other post-employment benefits (OPEB) to its retirees, which consists of a health insurance benefit subsidy in a single-employer plan. The county funds OPEB annually on a pay-go basis. Yearly contributions have increased over the past three fiscal years, but are no more than about 31% of annual OPEB cost. Management may consider funding an OPEB trust over the near-term, although the unfunded actuarial accrued liability (UAAL) is a relatively moderate $6.2 million at the most recent December 31, 2010 actuarial valuation date or less than 1% of fiscal 2013 market value. Carrying costs for the county (debt service, pension, OPEB costs) totaled a manageable 19.3% of governmental fund spending in fiscal 2011.

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

In addition to the sources of information identified in Fitch's report 'Tax-Supported Rating Criteria', this action was additionally informed by information from Creditscope, University Financial Associates, LoanPerformance, Inc, and IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', (Aug. 14, 2012);
--'U.S. Local Government Tax Supported Rating Criteria', (Aug. 14, 2012).

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County Bond Ratings Approved by Fitch

On February 15, 2013, Fitch Ratings Fitch Ratings completed its review of Ellis County's financial profile and reaffirmed the County's general obligation bonds at "AA" rating. General obligation bonds are obligations of the county, secured by a pledge of its full faith and credit and taxing power.

"I am so pleased to receive this news," County Judge Carol Bush said. "Annually, the County Auditor and I teleconference with Fitch Ratings service as they conduct a routine surveillance review on Ellis County and our bond rating.
Fitch's conclusion reaffirms the conservative fiscal policy that has been the hallmark of Ellis County Commissioners Court."

Fitch Reviews is an independent firm that provides an opinion on "relative ability of an entity to meet (its) financial commitments." According to the report, after its investigation and analysis of the County's financial obligations and overall financial picture, Fitch gave the County a "Stable Financial Profile." The report states that: "The County maintains its sound financial position and solid reserves in line with historic trends. Conservative spending and budgeting practices typically enable financial performance that exceeds budget. Management maintains some revenue flexibility in its moderate overall tax rate."

Judge Bush also pointed out a key factor in the Fitch Rating. "During the interview, Fitch analysts acknowledged the positive influence of the County's tax rate" she said. "Without that additional revenue generated during the 2011-2012 Fiscal Year, our bond rating could very well have suffered." Ratings play a critical role in determining how much the County would have to pay to access credit markets, i.e., the amount of interest they pay on their issued debt.

Also of note to Fitch was the fact that "management is proactively considering further cost-saving options, the most material of which could include the privatization of county jail operations." At a December 18th workshop of the Ellis County Commissioners' Court, Johnson County officials including Sherriff Bob Alford, reported annual savings of a million plus dollars to the Johnson County budget as a result of contracting out its jail management. Bush noted that the Commissioners Court is just beginning the process of investigating whether similar savings could be achieved here. "We are looking at all cost-saving measures that are consistent with the quality of service we provide to our community and that make sense in today's economic environment."

The Fitch Report is available online at the County's website, www.co.ellis.tx.us. Additional information is available at 'www.fitchratings.com'.