

Midland County, Texas

General Government Full Rating Report

Ratings

Issuer Default Rating	AAA
New Issue	
General Obligation Refunding Bonds, Series 2016	AAA
Outstanding Debt	
General Obligation Bonds	AAA

Rating Outlook

Stable

New Issue Details

Sale Information: \$15,875,000 General Obligation Refunding Bonds, Series 2016, expected to sell the week of May 23 via negotiation.

Security: An annual countywide property tax levy limited to \$0.80 per \$100 of taxable assessed valuation (TAV).

Purpose: To refund certain outstanding obligations for savings.

Final Maturity: 2029.

Economic Resource Base: Midland County is located in the Permian Basin region of west Texas and includes the city of Midland.

Key Rating Drivers

Exceptional Financial Flexibility: The 'AAA' issuer default and general obligation ratings reflect the county's strong operating performance, expenditure flexibility, revenue-raising capability and low long-term liability burden.

Revenue Framework: 'aaa' factor assessment. Midland County has realized very strong 10-year average revenue growth of 9.4% through fiscal 2015 and maintains sizable ad valorem tax rate capacity. Revenue-raising capacity is strong, supported by ample tax rate capacity. The 'aaa' assessment incorporates the local economy's energy concentration and associated revenue base volatility, but recognizes the long-term strength of the revenue base and viability of the U.S. energy industry.

Expenditure Framework: 'aaa' factor assessment. Ample expenditure flexibility results from strong workforce control and low carrying costs. Fitch Ratings expects expenditures to grow in line with revenues on average, given the county's maturity and a lack of growth pressures.

Long-Term Liability Burden: 'aaa' factor assessment. The county typically cash-funds capital needs, resulting in a low debt burden. Pensions are well funded and near-term capital needs are modest.

Operating Performance: 'aaa' factor assessment. Fitch expects the county to demonstrate financial resilience during an economic downturn based on its healthy reserves, strong expenditure flexibility and revenue-raising capabilities.

Rating Sensitivities

Financial Flexibility: The issuer default and GO ratings are sensitive to maintenance of strong financial flexibility.

Related Research

[Fitch Rates Midland County, TX's GOs 'AAA'; Outlook Stable \(May 2016\)](#)

Analysts

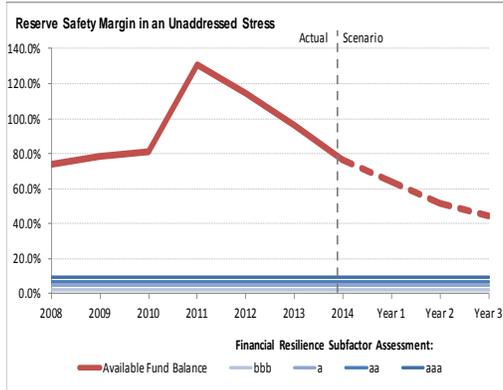
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Midland County (TX)

Scenario Analysis

v. 1.08 2016/05/17



Analyst Interpretation of Scenario Results:

Fitch expects Midland County to demonstrate a high level of financial resilience through an economic downturn, consistent with the county's history of strong financial flexibility and its general fund balance target equal to 50% of spending. Strong revenue raising capacity and expenditure flexibility, coupled with Midland County's robust reserves position the county to maintain sound finances through a sustained energy downturn. The county completed fiscal 2014 with unrestricted reserves of \$65 million (76.4% of spending), after funding \$17.6 million in capital and \$11 million in road and bridge projects. Unaudited fiscal 2015 unrestricted reserves of \$68.3 million represent 88.9% of spending. Fitch anticipates the county to complete fiscal 2016 favorable to budget with an application of reserves to fund one-time and capital projects and to maintain a financial cushion exceeding its 50% of spending target.

Scenario Parameters:

	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(4.6%)	1.5%	7.5%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2008	2009	2010	2011	2012	2013	2014	Year 1	Year 2	Year 3
Total Revenues	50,242	49,194	49,042	59,285	67,923	72,858	81,189	77,480	78,617	84,514
% Change in Revenues	-	(2.1%)	(0.3%)	20.9%	14.6%	7.3%	11.4%	(4.6%)	1.5%	7.5%
Total Expenditures	34,843	36,847	39,453	39,003	41,008	48,313	55,175	56,279	57,404	58,552
% Change in Expenditures	-	5.8%	7.1%	(1.1%)	5.1%	17.8%	14.2%	2.0%	2.0%	2.0%
Transfers In and Other Sources	184	-	11	-	16	2,691	-	-	-	-
Transfers Out and Other Uses	12,644	10,429	8,193	3,289	16,407	23,550	29,889	30,487	31,097	31,718
Net Transfers	(12,460)	(10,429)	(8,182)	(3,289)	(16,391)	(20,859)	(29,889)	(30,487)	(31,097)	(31,718)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	2,939	1,918	1,407	16,993	10,524	3,686	(3,875)	(9,285)	(9,884)	(5,757)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	6.2%	4.1%	3.0%	40.2%	18.3%	5.1%	(4.6%)	(10.7%)	(11.2%)	(6.4%)
Unrestricted/Unreserved Fund Balance (General Fund)	35,019	36,962	38,660	55,199	65,557	69,124	64,980	55,695	45,811	40,055
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	35,019	36,962	38,660	55,199	65,557	69,124	64,980	55,695	45,811	40,055
Combined Available Fund Bal. (% of Expend. and Transfers Out)	73.7%	78.2%	81.1%	130.5%	114.2%	96.2%	76.4%	64.2%	51.8%	44.4%
Reserve Safety Margins	Inherent Budget Flexibility									
		Minimal		Limited		Midrange		High		Superior
	Reserve Safety Margin (aaa)	73.1%		36.5%		22.8%		13.7%		9.1%
	Reserve Safety Margin (aa)	54.8%		27.4%		18.3%		11.4%		6.9%
	Reserve Safety Margin (a)	36.5%		18.3%		11.4%		6.9%		4.6%
Reserve Safety Margin (bbb)	13.7%		9.1%		6.9%		4.6%		2.3%	

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	5/18/16
AAA	Affirmed	Stable	3/9/15
AAA	Affirmed	Stable	3/25/13
AAA	Affirmed	Stable	4/29/11
AAA	Upgraded	Stable	4/30/10
AA+	Assigned	Stable	1/14/09

Credit Profile

The Permian Basin is one of the country's oldest and largest oil and gas reservoirs whose exploration and drilling has fueled strong economic activity. Fiscal 2016 market value per capita is a high \$147,000. Real oil, gas and other mineral values comprise 16.7% of the fiscal 2016 tax base, with the top 10 taxpayers making up 14% of TAV. Accounting for approximately 4.8% of TAV, Pioneer Natural Resources has remained the county's top taxpayer for over 10 years. Fitch anticipates the potential for a decline in the county's energy-rich TAV in the next couple of years depending on oil price and energy sector trends. This expectation is incorporated in the current rating. Top employers include the education, medical and governmental sectors. Other area industrial and business operations in the county include semiconductor products, telecommunications, dairy products, plastics and household goods.

Revenue Framework

Sales tax revenues make up about 50% of Midland County's general fund revenues, followed by property taxes at about 30%.

Midland County's rapid general fund revenue growth reflects 15% sales tax revenue and 13.6% ad valorem tax base CAGR between fiscal 2005 and 2015. The county's fiscal 2016 sales tax budget of \$30.8 million represents a steep 31% decline from fiscal 2015. However, the county's fiscal 2016 TAV of \$22.3 billion realized 4.8% growth associated with ongoing drilling and new residential and commercial development. Zillow reports a 1.6% annual decline since April 2016 and predicts a 3.7% annual rise in Midland County home prices in the year ahead. Fitch's 'aaa' assessment incorporates the volatility of the county's revenues, in particular, sales tax revenues, to the energy sector, but recognizes the long-term viability of the industry.

Strong sales tax revenue growth has allowed the county to reduce its ad valorem tax rate from \$0.29 per \$100 of TAV in fiscal 2005 to \$0.14 per \$100 of TAV in fiscal 2016, providing ample capacity below the statutory cap of \$0.80 per \$100 of TAV. This sizable revenue-raising capacity mitigates the 4.4% decline in general fund revenues indicated for the county from Fitch's analytical sensitivity tool modeling of a 1% decline in a U.S. GDP moderate downturn scenario.

Fitch anticipates the potential for a decline in the county's energy-rich TAV in the next couple of years depending on the direction of oil prices and energy sector trends. The 'aaa' revenue framework assessment incorporates Fitch's expectation that the county will raise tax rates, as it has historically, to maintain sound revenue growth during the downside of economic and energy cycles.

Expenditure Framework

Public safety and corrections account for 37.6% of general fund expenditures, followed by judicial functions (25.8%).

The pace of spending on operating functions is likely to remain in line with revenue growth. Fitch does not anticipate pressure on service levels, given the county's maturity.

Midland County exercises considerable expenditure flexibility through full control of workforce costs and low carrying costs. Fiscal 2015 carrying costs, 6.7% of governmental spending, reflect low direct debt of \$17.2 million subsequent to redemption of \$6.5 million of limited tax debt during fiscal 2014. Principal amortization is very rapid.

Related Criteria

[U.S. Tax-Supported Rating Criteria \(April 2016\)](#)

Long-Term Liability Burden

Midland County's low long-term liability burden, 4.0% of personal income, reflects a history of cash funding capital from surplus results and modest overlapping debt. Recent projects funded with general fund monies include an 11-story county courthouse, a library, a multi-purpose arena/pavilion and ongoing road maintenance projects. Near-term capital plans are modest, and the county does not have immediate debt issuance plans.

The county participates in the Texas County and District Retirement System, an agent multiple-employer pension plan. Under GASB 67 and 68, the county reports a fiscal 2015 net pension liability of \$11.3 million, with fiduciary assets covering 91.3% of total pension liabilities at the plan's 8.1% investment return assumption (approximately 81.5% based on a lower, 7% investment rate assumption).

The county's fiscal 2014 audit received a qualified opinion for the exclusion of its other post-employment benefits (OPEB) expense and liability from its statement of governmental activities. However, the county includes the required OPEB disclosure in its financial statement notes. Texas Law Government Code, Chapter 175, requires counties to make continued health benefits coverage available under certain circumstances to retirees and their dependents, but does not require counties to fund any portion of the cost. Midland County funds OPEB on a current pay-as-you-go basis for a single fiscal year through an annual appropriation authorized by Commissioner's Court during the budget process, and does not acknowledge a long-term OPEB obligation. The current OPEB obligation is modest in relation to the county's market value. Fitch will monitor the growth of the liability and continue to assess the county's approach to financial reporting in the future.

Operating Performance

Fitch expects Midland County to demonstrate a high level of financial resilience through an economic downturn, consistent with the county's history of strong financial flexibility and its general fund balance target, equal to 50% of spending. For details, see "Scenario Analysis," page 2.

The county regularly applies surplus results to fund facility, road and other governmental capital projects, and to replenish reserves.

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