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Summary:

Lubbock County, Texas; General Obligation

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Credit Profile

US\$35.485 mil GO bnds ser 2024 dtd 01/15/2024 due 02/15/2044

Long Term Rating

AA+/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Lubbock County, Texas' estimated \$35.5 million series 2024 general obligation (GO) bonds.
- The outlook is stable.

Security

The bonds are secured by an unlimited ad valorem tax. Proceeds from the 2024 bonds will fund the construction of a new county medical examiner's office.

Credit overview

We expect the county's economy will remain a credit strength, supporting revenue growth and financial stability, given its regional draw for the banking, agricultural and health care sectors. Lubbock County is also home to Texas Tech University. With enrollment of about 40,000, it acts as a stabilizing institution. Officials report that retail sales grew 4.2%, with a 15.0% year-over-year increase in new car sales. While commercial building activity is down 43% from 2022, there is one large development that the county estimates will add more than \$10 billion in revenue over the next 10 years. Leprino Foods, a global leader in dairy manufacturing, will open a \$1 billion state-of-the-art manufacturing plant in late 2024. The development is attracting related businesses and the company will partner with Texas Tech on food research. Another noteworthy addition is fiber-optics company Duraline, which will establish its presence in the county with a \$50 million investment. Residential growth continues, with multiple subdivisions under construction.

Positive operating performance in recent years allowed for continued fund balance growth and officials expect these results will continue given conservative assumptions and ongoing revenue growth. General fund revenues were primarily derived from property taxes (62%) and sales taxes (28%) in fiscal 2022. The county estimates that it added nearly \$9 million in fund balance in fiscal 2023. The fiscal 2024 budget is balanced. We believe that Lubbock County can manage inflationary and growth-related pressures; we expect reserves and liquidity will remain very strong as the county builds up its unassigned fund balance to the Commissioners Court's five-month informal reserve target. The county exceeds its formal policy's requirement to maintain at least 25% of expenditures in reserves.

Post-sale, the county will have approximately \$150 million in total direct debt outstanding. Although we expect future borrowing as service demands increase, we do not anticipate material deterioration in the county's debt profile in the near term. Notable future debt plans include an extension to the detention center that will cost about \$250 million if authorized by voters, with an estimated 5 cent tax rate impact. The county also will issue priority lien bonds, secured

by hotel and short-term car rental taxes, for the Lubbock County Expo Center. The county's series 2020 special tax revenue bonds have been privately placed; the terms do not include any unusual covenants, events of default or remedies that could pressure liquidity.

The 'AA+' rating reflects our assessment of the county's:

- Steady growth in the large and diverse tax base that benefits from the stabilizing presence of Texas Tech University;
- Stable budgetary performance and very strong reserves, supported by revenue growth, with the expectation that fiscal 2024 will follow a recent trend of surpluses;
- Standard financial management policies and practices, including conservative budgetary assumptions, regular budget-to-actual results, and investment reporting; and an institutional framework score that we consider strong; and
- Elevated but manageable debt profile, with expected future issues to meet service demand growth. Pension and other postemployment benefits obligations are not an immediate credit risk, although pension plan assumptions incorporate a relatively high discount rate.

Environmental, social, and governance

The rating incorporates our view of the county's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile, which we view as neutral in our credit analysis. We note the risk of extreme drought in West Texas and potential associated risks to local communities. However, we think regional initiatives to establish and protect raw water supplies will support the state's greater water plan somewhat mitigate this risk.

While the county was subject to a cyber incident last year, we understand that the incident did not result in a material financial loss or loss of data. The breach, in our view, does not represent an elevated governance risk regarding the county's internal policies and procedures. We also note that the county has implemented multiple layers of security to prevent damage from cyber attacks.

Outlook

The stable outlook reflects our expectation that the county will continue to benefit from the broad and diverse local economy and institutional presence, and it will maintain a very strong financial profile, supported by conservative budgeting practices.

Downside scenario

We could consider a negative rating action if budgetary performance deteriorates significantly, resulting in a reduction of available fund balance to levels that are no longer comparable with those of peers and below the county's formal target. A material weakening of key economic indicators could also pressure the rating.

Upside scenario

We could raise the rating if the debt burden moderates; additional financial policies and practices are adopted and maintained (including comprehensive long-term financial and capital planning and a debt policy), assuming no

deterioration of economic and financial factors.

Lubbock County, Texas--Key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	81.0			
Market value per capita (\$)	103,511			
Population		317,282	314,504	312,832
County unemployment rate(%)		4.5		
Market value (\$000)	32,842,192	23,970,067		
Ten largest taxpayers % of taxable value	3.0			
Strong budgetary performance				
Operating fund result % of expenditures		3.9	5.1	4.5
Total governmental fund result % of expenditures		0.7	12.9	5.7
Very strong budgetary flexibility				
Available reserves % of operating expenditures		42.6	42.4	38.2
Total available reserves (\$000)		49,864	45,231	39,113
Very strong liquidity				
Total government cash % of governmental fund expenditures		52.0	68.8	28.6
Total government cash % of governmental fund debt service		986.0	1,228.7	498.9
Adequate management				
Financial Management Assessment	Standard			
Adequate debt and long-term liabilities				
Debt service % of governmental fund expenditures		5.3	7.8	5.6
Net direct debt % of governmental fund revenue	80.7			
Overall net debt % of market value	6.7			
Direct debt 10-year amortization (%)	52.0			
Required pension contribution % of governmental fund expenditures		4.2		
OPEB actual contribution % of governmental fund expenditures		0.6		
Strong institutional framework				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 Update Of Institutional Framework For U.S. Local Governments

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