

## Scott, Rhonda

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**From:** Williams, Kathy  
**Sent:** Monday, February 6, 2023 1:13 PM  
**To:** Scott, Rhonda  
**Subject:** FW: S&P Global Ratings Letter & Report - Lubbock County  
**Attachments:** S&P Global Ratings Letter(STDLONG1743720) Doc.pdf;  
RatingsDirect\_SummaryLubbockCountyTexasGeneralObligation\_53950624\_Feb-03-2023.PDF

*Rhonda,*

*Please put on the S&P Global Rating Letter and Summary for the Feb. 13<sup>th</sup> Court.*

*Thanks,  
Kathy*

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**From:** Norris, Karolina <Karolina.Norris@spglobal.com>  
**Sent:** Friday, February 3, 2023 2:01 PM  
**To:** Williams, Kathy <KWilliams@lubbockcounty.gov>; Parrish, Curtis <CParrish@lubbockcounty.gov>; Vince Viaille - Specialized Public Finance Inc. (vince@spfmuni.com) <vince@spfmuni.com>; Donna Watson <donna@spfmuni.com>  
**Subject:** FW: S&P Global Ratings Letter & Report - Lubbock County

Please see the attached published report and the rating letter.

Donna and Judge Parrish – the attached report is an updated version of what you received this morning. A portion of the ESG paragraph was missing in the earlier version.

Thank you,  
Karolina

**Karolina Norris**  
Director

**S&P Global - Ratings**  
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**From:** [S&P\\_USPF\\_RatingLetters@spglobal.com](mailto:S&P_USPF_RatingLetters@spglobal.com) <[S&P\\_USPF\\_RatingLetters@spglobal.com](mailto:S&P_USPF_RatingLetters@spglobal.com)>  
**Sent:** Friday, February 3, 2023 10:08 AM  
**To:** [cparrish@co.lubbock.tx.us](mailto:cparrish@co.lubbock.tx.us)  
**Cc:** [donna@spfmuni.com](mailto:donna@spfmuni.com); Adegoke, Kolapo (Associated) <[kolapo.adegoke@spglobal.com](mailto:kolapo.adegoke@spglobal.com)>; Norris, Karolina (Analytical) <[Karolina.Norris@spglobal.com](mailto:Karolina.Norris@spglobal.com)>  
**Subject:** S&P Global Ratings Letter & Report - Lubbock County

Dear Curtis Parrish,

Attached, please find the rating letter and report for the transaction reflected above.

Should you have any questions regarding the rating or contents of the report, please contact the primary analyst listed in the report. If you need any further assistance, please don't hesitate to contact Kolapo Adegoke at [kolapo.adegoke@spglobal.com](mailto:kolapo.adegoke@spglobal.com)

For fee inquiries or for questions regarding invoicing and pricing, please email [pffeesvcs@spglobal.com](mailto:pffeesvcs@spglobal.com)

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Regards,

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February 2, 2023

Lubbock County  
904 Broadway  
Suite 101  
P.O. Box 10536  
Lubbock, TX 79401  
Attention: Curtis Parrish, County Judge

Re: ***US\$46,425,000 Lubbock County, Texas, Unlimited Tax Road Bonds, Series 2023, dated: Date of delivery, due: February 15, 2040***

Dear Curtis Parrish

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA+" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Please send hard copies to:  
S&P Global Ratings  
Public Finance Department  
55 Water Street  
New York, NY 10041-0003

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cc: *Donna Watson, Executive Assistant*  
*Specialized Public Finance, Inc.*

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## Summary:

# Lubbock County, Texas; General Obligation

### Primary Credit Analyst:

Karolina Norris, Dallas + 1 (972) 367 3341; [Karolina.Norris@spglobal.com](mailto:Karolina.Norris@spglobal.com)

### Secondary Contact:

Joshua Travis, Dallas + 1 (972) 367 3340; [joshua.travis@spglobal.com](mailto:joshua.travis@spglobal.com)

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## Summary:

# Lubbock County, Texas; General Obligation

### Credit Profile

US\$46.425 mil unlt'd tax rd bnds ser 2023 due 02/15/2040		
<i>Long Term Rating</i>	AA+/Stable	New
Lubbock Cnty unlt'd tax rfdg bnds ser 2020 dtd 10/15/2020 due 02/15/2040		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Lubbock Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Lubbock Cnty GO bnds ser 2019 dtd 08/15/2019 due 02/15/2020-2021 2024-2040		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Lubbock Cnty GO rfdg bnds ser 2021 dtd 11/15/2021 due 02/15/2026		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Lubbock County, Texas' estimated \$46.4 million series 2023 unlimited-tax road bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the county's general obligation (GO) unlimited- and limited-tax debt outstanding.
- The outlook is stable.

### Security

The series 2023, 2020, and 2019 road bonds are secured by an unlimited ad valorem tax. Revenue from a direct and continuing ad valorem tax, within the limits prescribed by law, secures the county's series 2021 and 2016 bonds.

We rate the limited-tax bonds on par with our view of the county's general creditworthiness, as the tax base supporting the obligations is coterminous with Lubbock County, and we see no unusual risks regarding the county's willingness to support the debt or the fungibility of resources.

The maximum allowable rate in Texas is 80 cents per \$100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to 40 cents. The county's fiscal 2023 levy is well below the maximum, at 34.77 cents, 3.33 cents of which is dedicated to debt service on the limited-tax bonds.

The road bonds are exempt from the tax limitations pursuant to state law and an election held in the county in 2019.

Proceeds from the 2023 bonds will fund the construction and maintenance of roads throughout the county.



## Credit overview

Lubbock County continues to benefit from solid tax base expansion, which resulted in growing property taxes, its largest revenue stream. Increasing revenues and conservative assumptions allowed for strong budgetary performance, and we believe the county's financial profile will remain stable, including very strong reserves, over the outlook horizon. The county's debt profile will weaken with the issuance of the 2023 bonds but remain manageable.

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 a formal policy;
- Standard financial management policies and practices and an institutional framework that we consider strong; and
- Elevated but manageable debt profile, with expected future issues to meet service demand growth.

## 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 to support the state's greater water plan somewhat mitigate this risk.

The county discovered a cyber incident on Jan. 26, 2023. Given an ongoing investigation that involves various entities, including the Secret Service and the Federal Bureau of Investigation (FBI), the full extent of the incident is not yet known, but at this time it does not appear there will be a material impact on the county's finances. We will assess the full impact of the incident once more information is available and will monitor the county's response, including updates to internal policies and procedures that officials are planning on reviewing.

## Outlook

The stable outlook reflects our expectation that the county will maintain a very strong financial profile, supported by conservative budgeting practices. We also believe that the broad and diverse local economy will remain stable and continue to benefit from a stabilizing higher education presence, despite potential headwinds stemming from the current macroeconomic conditions.

## 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.

## Credit Opinion

### Stable tax base growth in West Texas

Lubbock County is in West Texas and is home to the City of Lubbock and Texas Tech University. With enrollment exceeding 40,000, the university acts as a stabilizing institution for the county. The tax base grew steadily the past decade and benefited from other top sectors, including medical and agricultural. The top taxpayers are diverse and include utilities, a shopping mall, grocery store, railroad, other retail, and apartments. The tax base is largely composed of single-family properties (58.5%) and commercial and industrial properties (16.4%), with multifamily properties making up a smaller portion. Officials note several key developments occurring throughout the county, including Leprino Foods, a global leader in mozzarella cheese, whey protein, and other dairy ingredients, that will invest \$1 billion to build a state-of-the-art manufacturing plant located in East Lubbock. The plant will employ 700 at full operation. The large development is already spurring investment from related businesses, and officials report that Leprino will partner with Texas Tech on food research. Residential development includes multiple neighborhoods in various stages of construction and management has not noticed a slowdown despite the higher-interest-rate environment and increased construction costs. Given Lubbock's multi-county regional draw for sectors such as banking, health care, and other commerce, we anticipate that the local economy will remain strong and a key credit strength.

### Stable financial performance leads to improved flexibility and reserves

We adjusted general fund and total governmental fund expenditures to account for transfers out of the general fund in support of other funds and one-time capital expenditures funded with debt proceeds. We also adjusted the county's year-end fund balance to account for committed balances for future capital needs. 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 (58%) and sales taxes (28%) in fiscal 2021. County officials anticipate another surplus for fiscal year 2022 (ended Sept. 30), currently estimated at \$4.5 million. The fiscal 2023 budget is balanced, with the use of \$2 million of reserves, which is a standard budgeting practice for the county, although officials do not plan to spend down reserves in the near term. We do not think finances are under any particular or unique stress and believe that Lubbock County can manage inflationary and growth-related pressures without a negative impact on the budget. Likewise, we anticipate that reserves and liquidity will remain very strong over the outlook horizon.

### Standard financial management practices and policies

We revised our view of Lubbock County's management to adequate from strong because the county has not maintained a long-term capital plan, though officials reported that they will implement a capital improvement plan in the future.

Highlights of other practices include:

- Revenue and expenditure assumptions based on a multi-year historical trends;
- Regular budget updates, with monthly budget-to-actual reports provided to the commissioners;

- Formal investment policy, with quarterly reports to the commissioners;
- A formal policy to maintain at least 25% of expenditures in reserves to provide sufficient working capital and a margin of safety for local and regional emergencies without borrowing. County officials consider a balance of less than 15% to be a cause for concern, barring unusual or deliberate circumstances. If unassigned general fund balance falls below the target, officials take action to reach compliance within two budget cycles.
- The county has also instituted multiple layers of security to prevent damage from cyber attacks.

The institutional framework score for Texas counties is strong.

### Manageable debt burden with additional debt plans

Post sale, the county will have approximately \$111.5 million in total direct debt outstanding, including GO and special tax bonds, as well as capital leases. 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 and a new medical examiner's office; bonds for these projects could be issued in the next few years, but most will likely not occur within our two-year outlook horizon. 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.

### Well-funded pension plan and manageable other postemployment benefits (OPEB) obligation

We do not view pension obligations as an immediate credit risk for the county. The county's pension plan is reasonably well funded, but it incorporates a relatively high discount rate. We consider retiree health benefits a minimal credit risk.

The county participates in the following plan as of Dec. 31, 2020:

- The statewide Texas County & District Retirement System, which is a nontraditional, defined-benefit pension plan that provides retirement, disability, and death benefits for all full-time employees. The plan is 92.7% funded with a net pension liability equal to \$21.5 million. Actuarial assumptions include an 8% discount rate and 11-year closed amortization period.
- Lubbock County Retiree Health Care Plan, which provides medical and dental benefits to certain retirees that elect to have continued coverage upon retirement. The county doesn't pre-fund this liability and county officials expect to continue to pay OPEB costs on a pay-as-you-go basis. As of Dec. 31, 2020, the total OPEB liability was \$34.9 million.

### Lubbock County, Texas--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	77.5			
Market value per capita (\$)	93,143			
Population		314,504	312,832	310,956
County unemployment rate(%)		4.5		
Market value (\$000)	29,293,870	23,970,067		

## Lubbock County, Texas--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Ten largest taxpayers % of taxable value	3.7			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		5.1	4.5	7.6
Total governmental fund result % of expenditures		12.9	5.7	8.7
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		42.4	38.2	33.7
Total available reserves (\$000)		45,231	39,113	34,401
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		73.0	68.8	28.6
Total government cash % of governmental fund debt service		938.1	1,228.7	498.9
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Adequate debt and long-term liabilities</b>				
Debt service % of governmental fund expenditures		7.8	5.6	5.7
Net direct debt % of governmental fund revenue	76.4			
Overall net debt % of market value	7.3			
Direct debt 10-year amortization (%)	55.9			
Required pension contribution % of governmental fund expenditures		5.6		
OPEB actual contribution % of governmental fund expenditures		0.7		
<b>Strong institutional framework</b>				

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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