Research Update:

Scurry County, TX GO Debt Rating Affirmed At 'A+'; Outlook Is Stable

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Overview

- S&P Global Ratings affirmed its 'A+' rating on Scurry County, Texas' outstanding general obligation (GO) debt.
- The outlook is stable.
- The rating reflects our application of Methodology For Rating U.S. Governments, Sept. 9, 2024.

Rationale

Security

Scurry County's existing bonds constitute direct obligations of the county, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the county. We do not differentiate between Scurry County's limited-tax GO debt and the county's general creditworthiness given that the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the county's fungibility of resources.

The Texas constitution limits the maximum allowable ad valorem tax rate to 80 cents per $100 of assessed value (AV) for a county's general fund, permanent improvement fund, road and bridge fund, and jury fund, with 40 cents of the maximum tax rate for debt service. The county's current total tax rate is 54.98 cents, with 2.78 cents dedicated to debt service, both well below the maximum permitted.

Credit highlights

The rating reflects our view of the county's concentrated economy but recent history of positive operations, with healthy general fund cash and cash equivalents. Approximately 80 miles southeast of Lubbock, the county's economy is primarily rooted in oil and gas, resulting in fluctuating values, and the county reports that values are currently down 9% due to mineral concentration. Additionally, county management reports multiple wind and solar farms are planned for construction, and Amazon recently signed a rental agreement with the county for land use. On the residential side, population has declined, but management believes the trend going forward will be steady.

The county had a deficit in 2022 but a surplus in 2023, which it attributes to an uptick in sales tax revenue, American Rescue Plan Act funding, and additional grant money. The county ended fiscal 2024 with another surplus, nearly doubling its audited available reserves, and states the surplus was assisted by additional funding it received from Rural Law Enforcement Grants. The fiscal 2025 budget was adopted as breakeven. Officials anticipate a potential year-end surplus dependent on grant revenue and abatements from the aforementioned solar and wind farms. The county noted it has to pay back an overpayment in sales tax collections, but despite this, it is still on track with its budgeted sales tax revenue. The fiscal 2026 proposed budget has a breakeven year-end result. As part of its budget, the county allocates funds to an emergency reserve, strictly to be used for disasters, as ordered by the county court. It is our view that the county's operations will remain stable to positive due to the additional funding from increased revenue from grants and solar and wind farm construction, and flexibility for unanticipated costs through its emergency reserve. Property tax billings are sent Oct. 1 and are due by Jan. 31 the next year. Due to the timing of collections and the county's fiscal year end of Dec. 31, it is our view that available reserves are reported at a low point and are typically lower than its available funds at other points during the fiscal year. We expect its cash levels ($14.6 million as of Dec. 31, 2024) will remain healthy.

The rating further reflects our view of the county's:

- Concentrated economy in volatile industries, with a current declining population trend, but with local incomes that compare well with those of similarly rated peers;
- Recent history of operating surpluses, building available cash reserves and increasing budgetary flexibility, supplemented by its emergency reserve;
- Financial policies and practices that include use of three to five years of historical data for revenue and expenditure assumptions, regular budget reporting to the board and software allowing for reports on real-time budget data, a formal investment policy and regular reporting on holdings and interest earnings, and an informal reserve target of maintaining six months of operations, combined with measures to mitigate its cyber risk;
- Manageable debt burden with 100% of the county's debt maturing over the next 10 years, and pension and other postemployment benefit liabilities we consider flexible and not an immediate credit risk; and
- For more information on our institutional framework assessment for Texas counties, see Institutional Framework Assessment: Texas Local Governments, Sept. 9, 2024.

Environmental, social, and governance

We believe the county's environmental risks are elevated due to its dependence on the oil and gas industry, which exposes it to environmental energy-transition risk and could lead to revenue disruption due to oil-and-gas sector volatility. We social and governance factors as neutral in our analysis.

Outlook

The stable outlook reflects our view that despite the concentrated economy, the county will maintain healthy general fund cash and cash equivalent levels.

Downside scenario

If the county were to have sustained deficits, depleting reserves and reducing budgetary flexibility, we could consider lowering the rating.

Upside scenario

Should the county's economy materially diversify, reducing its concentration in oil and gas, and should the county materially build reserves, we could consider raising the rating.

Scurry County, Texas--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	3.05
Economy	5.5
Financial performance	3
Reserves and liquidity	2
Management	3.00
Debt and liabilities	1.75

Scurry County, Texas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	150	--	150	128
County PCPI % of U.S.	78	--	78	78
Market value ($000s)	3,670,424	3,559,340	3,286,416	2,292,041
Market value per capita ($)	226,347	219,497	195,818	139,046
Top 10 taxpayers % of taxable value	35.4	33.7	36.2	34.3
County unemployment rate (%)	3.7	3.8	3.9	4.0
Local median household EBI % of U.S.	86	86	75	83
Local per capita EBI % of U.S.	75	75	67	68
Local population	16,216	16,216	16,783	16,484
Financial performance				
Operating fund revenues ($000s)	--	18,029	16,330	14,015
Operating fund expenditures ($000s)	--	16,698	15,165	15,479
Net transfers and other adjustments ($000s)	--	--	--	70
Operating result ($000s)	--	1,331	1,165	(1,394)
Operating result % of revenues	--	7.4	7.1	(9.9)
Operating result three-year average %	--	1.5	0.8	(1.9)
Reserves and liquidity				
Available reserves % of operating revenues	--	15.6	9.1	2.2
Available reserves ($000s)	--	2,812	1,480	315
Debt and liabilities				
Debt service cost % of revenues	--	3.7	4.2	5.1
Net direct debt per capita ($)	522	570	617	668
Net direct debt ($000s)	8,467	9,248	10,359	11,005

Scurry County, Texas--key credit metrics

	Most recent	2024	2023	2022
Direct debt 10-year amortization (%)	100	100	--	--
Pension and OPEB cost % of revenues	--	4.0	5.0	6.0
NPLs per capita ($)	--	--	--	70
Combined NPLs ($000s)	--	--	--	1,147

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
Ratings Affirmed	
Local Government	
Scurry Cnty, TX Limited Tax General Operating Pledge	A+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.