

# RatingsDirect®

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## Summary:

# Rockwall County, Texas; General Obligation

### **Primary Credit Analyst:**

Ann M Richardson, Dallas (214) 765-5878; ann.richardson@standardandpoors.com

### **Secondary Contact:**

Brian J Marshall, Dallas (1) 214-871-1414; brian.marshall@standardandpoors.com

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### Credit Profile

US\$15.26 mil unlted tax rd bnds ser 2016 dtd 03/15/2016 due 02/01/2036

<i>Long Term Rating</i>	AA/Stable	New
Rockwall Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Rockwall County, Texas' series 2016 unlimited tax road bonds. At the same time, Standard & Poor's affirmed its 'AA' rating on the county's general obligation (GO) bonds outstanding. The outlook is stable.

The bonds constitute direct obligations of the county, payable from the levy and collection of a direct and continuing ad valorem tax levied, without legal limit as to rate or amount, on all taxable property in the county. An unlimited tax rate for debt service on road bonds is authorized by Article III, Section 52 of the Texas Constitution for road bonds. We understand that proceeds from the sale of the 2016 bonds will be used for various road construction purposes.

The county also has existing GO bonds that are payable from a continuing ad valorem tax levied on all taxable property within the county, within the limits prescribed by law. 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 levy is well below the maximum, at 39.59 cents, 9.79 cents of which is dedicated to debt service. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the county's flexibility under the levy limit.

The rating reflects our assessment of the following factors for the county:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 73% of operating expenditures;
- Very strong liquidity, with total government available cash at 104.1% of total governmental fund expenditures and 5.6x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 18.6% of expenditures and net direct debt that is 285.9% of total governmental fund revenue; and
- Strong institutional framework score.

### **Strong economy**

We consider the county's economy strong. Rockwall County, with an estimated population of 103,716, is located in the Dallas-Fort Worth-Arlington, TX MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 123% of the national level and per capita market value of \$81,867. Overall, the county's market value grew by 6.6% over the past year to \$8.5 billion in 2016. The county unemployment rate was 4.5% in 2014.

Rockwall County sits adjacent to Dallas County in north central Texas. The county seat, Rockwall, is located 30 miles east of Dallas on interstate 30. Lake Ray Hubbard, a major water supply facility for the city of Dallas, forms the county's western borders. The recreational facilities provided by Lake Ray Hubbard and accessibility to the Dallas MSA have resulted in increased tourist trade and residential development in the county at a rapid rate. Population in the county has increased by almost 25% over the past five years; increasing to about 103,000 in fiscal 2016 from about 83,000 in fiscal 2012. As a result, the county has experienced continued growth in its residential values. In addition, office and retail development is continuing at a steady pace.

### **Strong management**

We view the county's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The county historically has had stable revenue streams and expenditure growth rates, allowing for historical trend analysis that conservatively estimate revenues and expenditures. Officials report monthly budget-to-actual results to the county commission, and they can amend the budget at any time throughout the year. The county's formal investment policy follows guidelines outlined by state statutes, with formal updates given at monthly to the governing body. The county also maintains an adopted policy to maintain four-to-six months' annual budgeted expenditures, based, in part, on cash needs, which have historically been maintained. The commissioner's court also has an adopted a general debt management policy that sets guidelines for debt issuance. The county lacks policies in some areas, including long-term financial and capital planning, but we believe there is some informal long-term planning that coincides with the annual budget process.

### **Strong budgetary performance**

Rockwall County's budgetary performance is strong in our opinion. The county had surplus operating results in the general fund of 2.1% of expenditures, and slight surplus results across all governmental funds of 0.9% in fiscal 2014.

We adjusted for routine transfers out of the general fund, and one-time projects funded through cash-on-hand and debt proceeds. In fiscal 2015, the county underwent a one-time project in its general fund that increased routine transfers by more than \$5 million. Netting the costs associated with this one-time transfer out of our data, we estimate the county will have surplus general fund operations in fiscal 2015. In addition, based on discussions with management, we believe the county's total governmental funds will perform similar to that in fiscal 2014 in fiscal years 2015 and 2016. The county's general fund budget for fiscal 2016 is balanced, and management reports that year-to-date actuals are trending in line with budgeted figures. Therefore, we believe the county's budgetary performance will remain at least balanced in the general fund and across all governmental funds.

### **Very strong budgetary flexibility**

Rockwall County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 73% of operating expenditures, or \$18.6 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Based on year-end estimates, we believe the county will use about \$5.5 million on one-time expenditures related to an interoperability project and a judicial court project. Despite the planned spend down in fiscal 2015, we believe the county's fund balance will only decline to about \$16 million, or about 60% of general expenditures. Management has historically maintained reserves in excess of its four-month minimum reserve policy, and currently does not have plans to reduce reserves below this policy. Therefore, we believe the county's budgetary flexibility will remain very strong, and in excess of 30%.

### **Very strong liquidity**

In our opinion, Rockwall County's liquidity is very strong, with total government available cash at 104.1% of total governmental fund expenditures and 5.6x governmental debt service in 2014. In our view, the county has strong access to external liquidity if necessary.

This strong access to external liquidity is demonstrated by the county's access to the market in the past two decades. Rockwall County has issued primarily GO-backed bonds over the past 20 years. It has historically had what we consider very strong cash balances and, given there are limited plans to reduce the county's reserves over the next two years, we do not believe its liquidity position will worsen. Currently, all of Rockwall's County's investments comply with Texas statutes and the county's internal investment policy. At year-end fiscal 2014, the county's investments were primarily held in state investment pools, none of which we consider aggressive. The county also entered into a privately placed bank agreement in December 2015; however, we have reviewed the agreement, and the right to accelerate the debt is not a remedy of default.

### **Very weak debt and contingent liability profile**

In our view, Rockwall County's debt and contingent liability profile is very weak. Total governmental fund debt service is 18.6% of total governmental fund expenditures, and net direct debt is 285.9% of total governmental fund revenue.

We understand that a portion of the debt service on the county's series 2012A bonds, which are included in our calculations, will be paid from amounts received by the county pursuant to a pass-through toll agreement between the Rockwall County and the Texas Department of Transportation (TxDOT). Under the agreement, when the project is complete, TxDOT will reimburse the county by paying an annual amount equal to 3.5 cents for each vehicle on the project during the previous year; provided each annual reimbursement will be not less than \$1.0 million or more than about \$2.1 million. The aggregate maximum amount to be reimbursed to the county under the agreement cannot exceed \$22.9 million. We believe that Rockwall County will not receive its first payment until fiscal 2019. Standard & Poor's does not yet view this debt as self-supporting since three years of audited data is not yet available. However, we believe that once this debt is shown to be self-supported, the county's debt and liability profile could improve. Currently, the county has no additional plans to issue debt within the next two years, but will likely need to issue additional debt outside our two-year outlook period.

Rockwall County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled

3.4% of total governmental fund expenditures in 2014. The county made 108% of its annual required pension contribution in 2014.

The county provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System. The county has historically contributed at least 100% of its annual required contribution and the plan's funded ratio was about 99% funded as of the 2014 audit. We anticipate the county will continue to make its full payment annual required contribution over the next two years. The county also offers health benefits to retirees through its self-insured plan if they retire before age 65. Those retiring at age 65 or older can choose to obtain coverage through the CountyChoice Silver plan offered by the Texas Association of Counties. The county recognizes expenses for OPEB through pay-as-you-go financing.

### **Strong institutional framework**

The institutional framework score for Texas counties is strong.

## **Outlook**

The stable outlook reflects our opinion that we will not change the rating over the two-year outlook horizon. The outlook also reflects our expectation that management will continue to practice and adhere to its well-embedded financial practices and will maintain reserves in compliance with its formal reserve policy, enabling the county's budgetary flexibility to remain very strong.

### **Upside scenario**

A higher rating is possible if economic indicators, namely market value per capita, were to improve to levels we considered more comparable to similarly rated peers, or debt levels were to moderate.

### **Downside scenario**

We could lower the rating if reserves were significantly reduced and budgetary performance was to deteriorate.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of March 14, 2016)			
Rockwall Cnty ltd tax rfdg bnds ser 2010 dtd 05/01/2010 due 02/01/2011-2021	2023	2025	2027 2029 2031 2034
<i>Long Term Rating</i>	AA/Stable		Affirmed
<b>Rockwall Cnty GO (CIFG)</b>			
<i>Unenhanced Rating</i>	AA(SPUR)/Stable		Affirmed

Many issues are enhanced by bond insurance.

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.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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