

June 4, 2009

Summary:
**Rockwall County, Texas; General
Obligation**

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Credit Profile		
US\$24.62 mil ltd tax rfdg bnds ser 2009 dtd 06/01/2009 due 02/01/2034		
<i>Long Term Rating</i>	AA/Stable	New
US\$10.705 mil unltd tax road bnds ser 2009 dtd 06/01/2009 due 02/01/2034		
<i>Long Term Rating</i>	AA/Stable	New
Rockwall Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Rockwall Cnty GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Rockwall Cnty GO (CIFG)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to Rockwall County, Texas' series 2009 unlimited-tax road bonds and limited-tax refunding bonds and affirmed its 'AA' long-term rating and underlying rating (SPUR), with a stable outlook, on the county's existing general obligation (GO) debt.

In our opinion, the ratings reflect the county's:

- Access to the Dallas-Fort Worth metropolitan statistical area (MSA), leading to strong residential and commercial growth;
- Very strong wealth and income levels; and
- Very strong financial position with a trend of increasing reserves.

We believe the county's high overall debt burden, coupled with additional debt-financed capital needs, somewhat offsets these strengths.

The county's full faith and credit pledge secures the unlimited-tax road bonds. The county's ad valorem property tax pledge, subject to the state's 80-cent per \$100 of assessed value tax rate limit, secures the limited-tax refunding bonds. Officials will use bond proceeds to fund the construction of road improvements and refinance a portion of the county's tax notes outstanding issued for a new justice center.

Rockwall County, with a population estimate of 74,100, is 20 miles east of Dallas County on Lake Ray Hubbard's eastern shores. The county, primarily developing as a residential community, has experienced rapid growth recently with its population increasing by 72% since 2000. Improved transportation access to the Dallas Metroplex and the recreational facilities provided by Lake Ray Hubbard have been contributing factors to strong growth trends. Services and retail trade dominate the local economy. Leading employers include Rockwall Independent School District, Lake Pointe Medical Center, and Wal-Mart Stores Inc. The property tax base has increased by 58% over

the past five years to \$6.7 billion for fiscal 2009. Property tax base growth should be flat for the next budget year due to the current economic environment; but the county still has a number of residential developments under construction, along with planned developments on hold waiting for economic conditions to improve. Market value, an indicator of wealth, is \$80,118 per capita, which we view as very strong. We also consider county income levels very strong: Median household effective buying income is 52% above the state's average and 46% above the national average.

In our opinion, Rockwall County's financial position remains very strong. Despite a rapidly growing residential population and increasing service needs, the county has continued to build its general fund balance since fiscal 1996. At fiscal year-end 2007, the unreserved general fund balance totaled \$18.5 million, or 96.3% of operating expenditures. Officials attribute the good performance, in part, to fees and sales tax revenues exceeding budgeted projections while keeping expenditures in-line. Unaudited fiscal 2008 figures reflect another surplus due to conservative budgeting that will result in a projected \$2.4 million surplus. With this surplus, management estimates it will have a \$19.2 million general fund balance, keeping reserves as a percent of expenditures close to 96%. For fiscal 2009, officials are projecting break-even operations, which is better than the \$2.5 million budgeted operating deficit, due to prudent spending practices by individual departments. The county expects to balance the fiscal 2010 budget despite relatively flat tax base growth of 1% having an effect on property tax revenues. Management is contemplating one, or a combination, of the following options to compensate: freezing raises, raising taxes, or using some of its reserves. The local property tax rate is currently 37.5 cents per \$100 of assessed value.

Standard & Poor's deems Rockwall County's management practices "standard" under its financial management assessment (FMA) methodology, indicating the finance department maintains adequate policies in most, but not all, key areas. Officials monitor the budget monthly, and they have the flexibility to make adjustments as needed. The county's only formal written financial management policies exist for investments, which follow investment guidelines outlined by state statutes; management provides the governing body with informal updates at least monthly. Key practices include management's general fund reserve goal of six months' operating expenditures. The county lacks policies in some areas, including long-term financial and capital plans and debt management.

Following these issuances, the overall net debt burden is \$8,232 per capita, or 10.3% of market value, which we view as high. In our opinion, amortization is slightly below average with officials retiring 45.5% of principal over 10 years. The debt service carrying charge should remain an elevated 23% based on estimated fiscal 2008 general fund expenditures. Management plans to issue \$10.5 million of debt for additional road improvements by July 2009.

Outlook

The stable outlook reflects Standard & Poor's expectation that the county will maintain its strong reserves while weathering the regional economic slowdown and that property tax base expansion will continue, albeit at a slower pace, which should help the county sustain its financial position while implementing its growth-related capital program and managing its debt levels.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- "Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality," April 2, 2008

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Ratings in the left navigation bar, select Find a Rating.

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