Fitch Ratings

Fitch Affirms Rockwall County, Texas' ULT and LTGOs at 'AA'; Outlook Stable

Fitch Ratings-Austin-15 December 2015: Fitch Ratings has affirmed the 'AA' rating on Rockwall County, Texas' (the county) outstanding debt as follows:

--$26.7 million unlimited tax (ULT) road bonds series 2009, 2010, and 2012 at 'AA';
--$35 million limited tax bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY

The limited tax bonds are payable from an annual ad valorem property tax levy levied against all taxable property in the county, limited to $0.80 per $100 assessed valuation. The road bonds are payable from a separate, unlimited ad valorem property tax levy.

KEY RATING DRIVERS

STRONG FINANCIAL POSITION: The county maintains a strong fiscal profile as evidenced by its structurally balanced operations, very large reserve cushion, and high liquidity despite an expected drawdown for pay-go capital spending.

FURTHER TAV EXPANSION: The county's tax base is generally stable and fairly diverse. Taxable assessed valuation (TAV) gains have continued to strengthen over the last three fiscal years.

FAVORABLE LOCATION & SOCIO-ECONOMIC INDICATORS: The county's proximity to the Dallas-Fort Worth-Arlington MSA (metropolitan statistical area) and location along Lake Ray Hubbard have fueled its rapid population growth. Income/wealth levels as well as educational attainment metrics remain well above average.

HIGH OVERALL DEBT /OTHER LIABILITIES MODERATE: Overall debt levels are high and Fitch expects they will remain elevated given the area's continued expansion. Nonetheless, given manageable capital needs and the county's well-funded pensions, carrying costs are expected to remain moderate.

RATING SENSITIVITIES

MAINTENANCE OF FISCAL POSITION: The rating is sensitive to the county's ability to maintain balanced operations and sound reserves that provide ample financial flexibility despite ongoing growth-related spending pressures.

CREDIT PROFILE

NEIGHBORING DFW COUNTY

Rockwall County is located approximately 25 miles northeast of Dallas, Texas along Lake Ray Hubbard, bisected by Interstate 30. Geographically the smallest in the state, the county includes the towns/cities of Rockwall, Fate, Heath, and McLendon-Chisholm and the eastern portion of Rowlett. The county's population has grown rapidly since 2000 at an annual average of approximately 6% and is currently estimated at 96,000.

Income and wealth levels as measured by 2013 median household income are approximately 50% above those of the MSA and about 60% above the state and U.S. County unemployment declined on a year-over year basis. The rate was low at 3.6% in August 2015, remaining below the MSA (3.9%), state (4.4%), and national (5.2%) levels.

STRENGTHENING TAV

Recreational facilities and commuting accessibility to the MSA spurred increased tourist trade and residential development that led to strong annual TAV growth pre-recession in the primarily residential tax base. Recessionary softening of the local housing market caused previously solid annual TAV gains to sputter out in a relatively brief two year period, although TAV remained stable.

TAV has steadily recorded stronger annual gains since fiscal 2013 in line with improved economic conditions, growing by approximately 5% in fiscal 2016 to $8.4 billion. This recent TAV performance has been bolstered by improved transportation corridors county-wide that lend easier access to the MSA, which in turn, has spurred further residential and attendant retail/commercial development. Fitch believes it is feasible that this TAV trend can be sustained in the near-term given various residential and retail/commercial projects underway throughout the county, which supports management's projections of 3% - 4% TAV annual gains over the near-term.

SOLID RESERVES, LIQUIDITY MAINTAINED

The county's financial profile is strong. Roughly 80% of general operating revenues come from property taxes and the county continues to maintain a relatively low and stable total tax rate of just under $0.40 per $100 TAV as of fiscal 2016, which provides a measure of revenue flexibility to the county. The general fund has generated surplus operations over the past six fiscal years (fiscals 2009 - 2014). Sizeable transfers out for pay-go capital occur periodically. Management has typically maintained reserves well in excess of established policy (no less than four months of annually budgeted spending) that provides the county with significant financial flexibility.

The fiscal 2014 unrestricted general fund balance totaled $18.6 million or nearly 73% of spending at year-end and liquidity also remained strong at $20 million in cash and investments, equaling over 9 months of general operational spending.

Slightly higher than budgeted fiscal 2015 revenue performance in conjunction with management's historically conservative spending practices are projected to soften the $5 million drawdown (15% of spending) initially budgeted for pay-go capital. Management presently expects a $2.6 million use of reserves while maintaining $16 million (unaudited) or 50% of spending in reserves at fiscal 2015 year-end. The $29.3 million 2016 operating budget was adopted as balanced; year-to-date revenue and expenditure trends remain in line with budget according to management.

OVERALL DEBT HIGH; OTHER LONG-TERM LIABILITIES MODERATE

Overall debt levels remain high at approximately $6,875 on a per capita basis and 8.3% of market value in fiscal 2014, reflective of the area's rapid growth. Fitch anticipates the overall debt burden will remain elevated from continued, growth-related capital and debt needs of various local governments that outpace TAV and population gains made over the near to intermediate term.

Principal amortization of the county's outstanding direct debt is average with 55% retired in 10 years. Additional transportation projects are planned in the near-term as the county expects to issue a portion (around $10 million) of its remaining ULT road bond authorization, although stronger than projected TAV gains have allowed the associated anticipated tax rate increase to remain at about half of what was promised voters. In addition, management indicates the county remains on track to begin receiving its annual reimbursement from the state (TXDOT) in fiscal 2018 based on previously completed transportation projects. The reimbursement is expected to total no less than $1 million and subsequently support annual debt service (ADS) repayment on the ULT road bonds.

Other capital needs appear manageable partially due to the county's use of pay-go capital, including completion of a new courthouse and a radio inter-operability system in fiscal 2015.

WELL-FUNDED PENSION

Pensions are provided through the Texas County and District Retirement System. The county's funded position in this state-wide, agent multi-employer plan was strong, reported at 99% as of the most recent Dec. 31, 2013 actuarial valuation date. This is largely a result of management's historical practice of boosting its funded position with additional lump sum contributions in excess of the annual required contribution (ARC). The county's funded position remained sound at an estimated 89% when adjusted by Fitch to reflect a more conservative investment rate assumption of 7%.

Other post-employment benefits (OPEB) are largely associated with retirees' participation in the county's self-insured health care plan and are funded on a pay-go basis. The unfunded liability for the county's OPEB totaled less than 1% of market value. Carrying costs for debt service, pension, and OPEB costs totaled a moderate 14% of governmental spending in fiscal 2014 and they are expected to remain moderate despite rising debt service through fiscal 2018.

Contact:

Primary Analyst
Rebecca C. Moses
Director
+1-512-215-3739
Fitch Ratings, Inc.
111 Congress Avenue, Suite 2010
Austin, TX 78701

Secondary Analyst
Steve Murray
Senior Director
+1-512-215-3729

Committee Chairperson
Arlene Bohner
Senior Director
+1-212-908-0554

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, the Texas Municipal Advisory Council, IHS Global Insight.

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942)
Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=996776)
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