

CREDIT OPINION

11 March 2016

New Issue

Contacts

Genevieve Nolan 212-553-3912
 VP-Senior Analyst MIS
 genevieve.nolan@moodys.com

Edward (Ted) Damutz 212-553-6990
 VP-Sr Credit Officer
 edward.damutz@moodys.com

Rockwall County, TX

New Issue: Moody's Assigns Aa2 to Rockwall County, TX's \$15.3M GOULT Road Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to Rockwall County's (TX) \$15.3 million Unlimited Tax Road Bonds, Series 2016. Concurrently Moody's maintains the Aa2 rating of \$63.2 million in outstanding parity bonds and \$33.4 million in limited tax debt outstanding.

The Aa2 rating reflects the county's stable and large tax base that continues to grow, a strong demographic profile, stable financial operations with healthy reserves, and an above average yet manageable debt burden. The lack of rating distinction between the unlimited tax and the limited tax pledge reflects the ample taxing margin that exists between the county's current maintenance and operations tax rate and the county's legal taxing limit. The lack of rating distinction also reflects the historically stable financial operations and maintained healthy reserve levels of the county.

Credit Strengths

- » Sound management practices resulting in stable financial operations
- » Healthy reserve position above formal reserve policy
- » Modest growth in taxable value expected in the near-term due in part to proximity to the Dallas (Aa2 stable) and Fort Worth (Aa1 stable) metroplex
- » Above average socioeconomic indices

Credit Challenge

- » Above average debt burden with a slow payout of principal outstanding

Rating Outlook

Outlooks are not usually assigned to local governments with this amount of debt.

Factors that Could Lead to an Upgrade

- » Continued tax base growth
- » Decrease in county's direct and overlapping debt levels

Factors that Could Lead to a Downgrade

- » Contraction of taxable value

- » Weak financial performance leading to narrowing of reserves
- » Increases to the county's direct and overlapping debt levels

Key Indicators

Exhibit 1

Rockwall (County of) TX	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value (\$000)	\$ 7,556,698	\$ 6,901,863	\$ 6,919,172	\$ 6,994,008	\$ 8,755,411
Full Value Per Capita	\$ 95,670	\$ 85,015	\$ 83,335	\$ 82,046	\$ 91,365
Median Family Income (% of US Median)	132.8%	132.8%	139.0%	139.0%	139.0%
Finances					
Operating Revenue (\$000)	\$ 31,666	\$ 32,448	\$ 32,958	\$ 35,046	\$ 34,993
Fund Balance as a % of Revenues	76.3%	64.6%	54.7%	57.5%	56.8%
Cash Balance as a % of Revenues	79.6%	76.5%	65.4%	68.8%	67.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 59,075	\$ 56,500	\$ 69,920	\$ 106,415	\$ 103,755
Net Direct Debt / Operating Revenues (x)	1.9x	1.7x	2.1x	3.0x	3.0x
Net Direct Debt / Full Value (%)	0.8%	0.8%	1.0%	1.5%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.3x	0.5x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.2%	0.2%	0.2%

Source: Rockwall County, TX Audits, FY10-FY14; Moody's Investors Service

Recent Developments

Recent developments are incorporated into the detailed rating considerations below.

Detailed Rating Considerations

Economy and Tax Base

We anticipate continued growth in the county's taxable value in the near-term given ample room for ongoing development. Rapid population expansion lead to significant increases in the county's full valuation, which grew at a strong average annual rate of 4.2% from 2011 to 2016. County officials report a taxable value for fiscal 2016 of \$8.5 billion, representing a significant 6.6% single year increase over fiscal 2015. The majority of the county's fiscal 2016 taxable value is attributed to single-family residential properties at 65.9% of total taxable appraised value.

County officials report modest commercial and residential development continues, including an expansion of existing businesses and the potential relocation of a high-end manufacturing firm to the area. Within the county seat of the City of Rockwall (Aa2), officials estimate that 50% of its land is available for development, underscoring the availability across the county for continued expansion. The county's top ten taxpayers, which include utilities, apartment complexes, and medical facilities, make up a modest 4.7% of the county's total tax base.

Historically the county's socioeconomic profile has remained above state and national averages. The US Census indicates above average income levels, evidenced by a median family income rate that was 143.4% of the US figure. The county's November 2015 unemployment rate of 3.7% was below the state (4.5%) and national (4.8%) rates for the same time period.

Financial Operations and Reserves

The county's financial performance is expected to remain stable over the near term given its sound reserve position and continued strong revenue performance. The county's available fiscal 2014 Operating Fund (General Fund + Road and Bridge Fund + Debt Service Fund) balance was \$19.8 million or a strong 70.4% of Operating Fund revenues. This balance represents a slight \$295,000 decline in

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

the county's reserve position from fiscal 2013, yet is in line with previous projections. The decline in fund balance was predominately the result of construction costs related to the new county courthouse, as county officials opted to cash fund the project rather than issuing additional debt. The county's General Fund revenues are primarily derived from property taxes in fiscal 2014 (84.6% of Operating Revenues).

While audited results have not been released for fiscal 2015, the county estimate that the General Fund balance fell to \$16.0 million or 54.8% of General Fund revenues. The decline is mainly due a \$5.0 million draw for capital expenditures related to a new emergency response system. The county anticipates an additional \$4.0 million draw on reserves in fiscals 2017 and 2018 to complete the project, but plans to remain in compliance with its reserve policy. For fiscal 2016, expenditures are tracking slightly below budgeted expectations, while revenues have posted a \$2.0 million year-to-date positive budget variance.

LIQUIDITY

At fiscal year-end 2014 the county's General Fund cash position had improved to \$20.1 million or a strong 76.6% of General Fund revenues. Given expected decline in reserves due to draws for capital expenditures, the county's General Fund cash is expected to decline over the near term but will remain healthy given the large starting balance.

Debt and Pensions

We anticipate that the county's debt profile will remain average over the near to medium term given the current addition of new debt, expectation of future debt issuance with continued growth, and a slow payout of debt outstanding.

DEBT STRUCTURE

Post-sale the county will have approximately \$78.5 million in unlimited tax debt outstanding and \$33.4 million in limited tax outstanding. The county's direct debt burden of 1.3% as a percent of fiscal year 2016 full value is above average for similarly rated county's. The county's overlapping debt burden is elevated at 10.0% and is reflective of significant borrowing needs of various issuers, particularly the City of Rockwall, Rockwall Independent School District (Aa2), and Royse City Independent School District. Payout is slow with 49.0% of principal amortized in the following ten years with all debt maturing by 2036. Officials do not have definite future debt plans after the current sale. We anticipate county officials will continue to evaluate funding options for future projects. Post-sale the county has \$32.2 million in authorized but unissued bonds.

The county is permitted by law to levy taxes for general fund, jury fund, road and bridge fund and permanent improvement fund purposes up to \$8.00 per \$1,000 of taxable value. Proceeds derived from these levies secures the limited tax debt. The county's total levy is currently \$3.96 per \$1,000 of taxable value, which is well below the limit. The total levy consists of several individual levies: a maintenance and operation (M&O) tax rate of \$2.98 per \$1,000 of taxable value, a road and bridge tax rate of \$0.001 per \$1,000 and an interest and sinking (I&S) tax rate of \$0.98 per \$1,000 of taxable value.

DEBT-RELATED DERIVATIVES

The county does not have any variable rate debt and is not a party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

We believe the county's pension burden is manageable and will remain affordable over the near term. The county contributes to the Texas County and District Retirement System (TCDRS). Moody's three-year average of adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is equal to an above average 0.53 times annual operating revenues. The three-year average ANPL to full value is 0.21%. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported contribution information, or the reported liability information of the statewide cost-sharing plans, but to improve comparability with other rated entities.

Management and Governance

Texas counties have an institutional framework score of "Aaa," or very strong. Counties rely on highly predictable, property taxes for 70%-80% of their operating revenues, while 10%-20% comes from less predictable services charges. Counties maintain high flexibility to raise property taxes, as most are well below the state mandated cap of \$8 per \$1,000 of AV, with no more than \$4 for debt. Expenditures primarily consist of personnel and judicial costs, which are highly predictable. Counties have high flexibility in reducing expenditures given a weak union presence. Rockwall county employs sound financial planning practices, including adherence

to its formal fund balance policy of maintaining four to six months of budgeted operating expenditures in reserve. The county also tracks expenditures monthly.

Legal Security

The Bonds are payable from the levy and collection of a direct and continuing ad valorem tax, without legal limit as to rate or amount, on all taxable property located within the county.

Use of Proceeds

Proceeds from the current sale of bonds will be used to fund various street construction and update projects throughout the county. The projects are in line with the county's long term capital improvement plan and strategic transportation goals as officials manage continued growth throughout the county.

Obligor Profile

Rockwall County, with an estimated 2014 population of 95,829, is located 30 miles east of Dallas (Aa2 stable) in north central Texas (Aaa stable).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

ROCKWALL (COUNTY OF) TX

Issue	Rating
Unlimited Tax Road Bonds, Series 2016	Aa2
Rating Type	Underlying LT
Sale Amount	\$15,260,000
Expected Sale Date	03/14/2016
Rating Description	General Obligation

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1018398

Contacts

Genevieve Nolan
VP-Senior Analyst
genevieve.nolan@moodys.com

212-553-3912
MIS

Edward (Ted) Damutz
VP-Sr Credit Officer
edward.damutz@moodys.com

212-553-6990

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454