Fitch Ratings

Public Finance
Tax-Supported
U.S.A

Rockwall County, Texas

New Issue Summary

Sale Date: The week of Oct. 19 via negotiated sale.
Series: $9,645,000 limited tax refunding bonds, series 2020
Purpose: Refund outstanding debt for savings.
Security: Limited ad valorem tax levied on all taxable property located within the county.

Underpinning the county's 'AA' IDR and the 'AA' limited and unlimited tax bond ratings is solid revenue performance with modest volatility and superior gap-closing capacity that should allow the county to navigate the current coronavirus-driven economic stresses while preserving a high level of financial resilience. Fitch expects the county's long-term liability burden and carrying costs will remain in the moderate range over the near to intermediate term.

Economic Resource Base: With an estimated population of just over 111,700, Rockwall County is located approximately 25 miles northeast of Dallas, bisected by Interstate 30. Strong tax base and population gains are primarily a result of residential development in the county due to both continued expansion of the Dallas MSA and the county's commuting accessibility to the sizeable and diverse regional economy. Its location along Lake Ray Hubbard has also boosted this growth with a growing number of lakeside communities, recreational facilities, and increased tourism.

Key Rating Drivers

Revenue Framework: 'aaa': General fund revenues should continue a strong growth trajectory over the medium term based on the expectation of additional population and economic expansion. The county's independent legal ability to increase operating revenues remains strong despite recent legislative changes that restrict annual property tax rate increases.

Expenditure Framework: 'aa': Fitch expects growth-related spending demands to generally track projected strong revenue gains. The county has demonstrated a willingness to curtail spending during times of economic decline due to its ability to adjust its labor and operating costs if needed. Carrying costs (combined debt service, required pension and actual retiree healthcare benefit outlays) are moderately elevated but are not a material burden on general fund operations.

Long-Term Liability Burden: 'aa': The long-term liability burden as a percentage of local personal income is moderate and driven primarily by overlapping debt. Fitch believes the combined liability total will likely climb due to expected additional borrowings by both the county and other area governments, but will be offset by further expansion of the resource base.

Operating Performance: 'aaa': Solid expenditure flexibility, abundant revenue-raising authority and modest revenue volatility, in conjunction with a historically strong reserve cushion, should enable the county to maintain a high level of financial resilience through the current pandemic-induced economic contraction.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A sustained decline in the long-term liability burden trend.

Ratings

Long Term Issuer Default Rating	AA

New Issue

$9,645,000 Limited Tax Refunding Bonds, Series 2020	AA

Outstanding Debt

Limited Tax Bonds	AA
Unlimited Tax Bonds	AA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (March 2020)

Related Research

Fitch Rates Rockwall Co., TX's $9.6MM Limited Tax Bonds 'AA'; Outlook Stable (October 2020)

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Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/19/20
AA	Revised	Stable	4/30/10
AA-	Assigned	Stable	6/04/09

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A consistent deterioration from the recent positive revenue growth experience that puts the county's growth rate below that of U.S. economic indicators.
- A continued increase in carrying costs (at or near 30% of governmental spending) that would restrict the county's expenditure flexibility.

Current Developments

Sector-wide Coronavirus Implications

The outbreak of coronavirus and related government containment measures worldwide have created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 4Q21. In its baseline scenario, Fitch assumes continued strong GDP growth in 3Q20 followed by a slower recovery trajectory from 4Q20 onward amid persisting social distancing behavior and restrictions, high unemployment and a further pullback in private-sector investment. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report entitled, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases – Update," published Sept. 8, 2020 on www.fitchratings.com

Coronavirus Impact on Rockwall County

County management reports that, in response to the pandemic, it has set aside financial reserves into an emergency fund, and the county has incurred roughly $1,150,000 in associated response costs to date. The county's allocation for reimbursable expenses is $788,200, of which 20% has been received to date. Pandemic-related expenses range from additional personnel needs, testing, equipment, supplies, and housing costs for inmates not transferred to other locations. Management also reports that preliminary fiscal 2020 general fund operating revenues indicate an essentially on-track performance with a modest $440,000 (or 1.2%) shortfall from the adopted budget, primarily in miscellaneous, fines and forfeitures from the adopted budget. Expenditure containment will more than offset it with an estimated $2,500,000 in operating expenses coming in under budget, with an additional approximate $2,000,000 of planned transfers out not occurring. The county's primary operating revenue source is property taxes (82% of fiscal 2019 general fund revenues), which are not likely to be materially affected unless pandemic conditions warrant a significant extension of the restrictions placed on economic activity in the Dallas metropolitan area.

Credit Profile

The county includes the towns/cities of Rockwall, Fate, Heath, and McLendon-Chisholm, portions of Royce City and Wylie, and the eastern portion of Rowlett. The estimated 2020 county population of approximately 111,700 is up more than 35% since 2010. Income/wealth levels as well as educational attainment metrics are well above state and national averages.

The tax base is diverse, with top taxpayers representing a mix of utility, real estate, hotel and retail industries. Taxable Assessed Valuation (TAV) performance has been positive historically. Fiscal 2020 TAV totals $12.68 billion, up nearly 9% from the prior year and up more than 5% on an average annual basis over the past 10 years. Fitch expects a solid pace of population and tax base growth to resume once economic conditions stabilize, with further expansion of the local housing market and commercial development activity.

Revenue Framework

Operating revenues for the county are comprised predominately of property tax receipts, which generate about 82% of general fund revenues. The remainder is a mix of intergovernmental revenues, charges for services, fines and miscellaneous revenues.

The county's compounded average 10-year general fund revenue growth from fiscal 2009 to fiscal 2019 (adjusted for tax rate changes) of more than 5% outperformed U.S. GDP and inflation growth and generally mirrors the average annual TAV growth over that period.

Revenue growth prospects are expected to continue the recent trend and remain at or above U.S. GDP growth; this expectation is based on ongoing and planned economic activity as well as strong demographic and county employment trends. Management reports that after a minimal slowdown on residential and more noticeable initial slowing on commercial developments due to the pandemic, various economic sectors and overall business activity have started to improve.

The primary ad valorem levy for Texas counties is a constitutional tax rate capped at $0.80 per $100 of taxable value; this levy funds general operations and debt service, as well as a very small levy for the road and bridge fund. The county has reduced its overall tax rate over the past four fiscal years from $0.396 in fiscal 2016 to $0.3131 for fiscal 2021, well below the constitutional ceiling.

However, Texas Senate Bill 2 (SB 2), enacted in 2019, makes a number of changes to local governments' property tax rate-setting process. Most notably, SB 2 will reduce the rollback tax rate (now the "voter approval tax rate") from 8% to 3.5% for most local taxing units and require a ratification election (replacing the current petition process) if any local taxing unit exceeds its voter approval rate, effective fiscal 2021.

The tax rate limitation in SB2 excludes new additions to tax rolls and allows for banking of unused margin for up to three years. Rockwall County's remaining control over property taxes and other local revenues such as fines, fees, licenses and permits is still sufficient to maintain high revenue-raising flexibility.

Expenditure Framework

Texas counties have certain constitutionally mandated spending responsibilities: primarily public safety, corrections and courts, roadways and public health. Public safety and general government are the two largest general fund spending categories for Rockwall County, each comprising more than 40% of fiscal 2019 outlays.

The pace of spending growth, absent policy action, is likely to be in line with or marginally above the anticipated strong revenue growth, based on current expenditure trends and projected population and TAV trends.

The lack of bargaining units provides the county with sound flexibility to adjust employee headcount and compensation in response to changing economic trends without affecting its constitutionally mandated spending. Expenditure flexibility is also evident in the county's practice of periodically using a portion of its reserves for pay-go capital spending. Nonetheless, this flexibility remains tempered by the county's need to maintain a competitive salary structure in a large, regional employment base in order to recruit and retain public safety personnel for one of its fundamental missions.

Carrying costs comprised of debt service, pension actuarially required contributions, and OPEB costs have ranged between 20% and 25% of governmental spending in recent years. Carrying costs spiked to more than 40% in fiscal 2019 due to a debt refunding; Fitch expects costs to decline to historical levels based on the current annual debt service schedule. Expected annual reimbursements from the Texas Department of Transportation for recently completed transportation projects of about $1.5 million should provide some offset to any future upward pressure in carrying costs.

Long-Term Liability Burden

The long-term liability burden including direct debt, overlapping debt and adjusted net pension liability is currently estimated at about 13% of Rockwall County personal income; more than

80% of the liability is attributed to overlapping debt, reflecting recent debt issuances by the numerous overlapping jurisdictions. Principal amortization of the county's outstanding tax-supported debt is about average, with slightly less than 50% retired in 10 years.

County voters in November 2018 approved $50 million of county bond authorization to improve and expand the existing jail. The current LT borrowing will refinance existing debt for savings. Earlier this year, the county issued LT new money and refunding debt, along with new money ULT road bonds. The remaining ULT road bond authorization totals $12.2 million. Given the county's recent new money debt issuance and anticipated additional area capital needs associated with growth, Fitch expects the long-term liability burden will remain in the current moderate range due to expected continued expansion of the resource base.

The county participates in the Texas County and District Retirement System, a state-administered agent, multiple employer defined benefit pension plan. The ratio of county plan assets to liabilities at Dec. 31, 2018 was 95.6% assuming an 8% return on investments; the ratio of assets to liabilities falls to 72% when adjusted for Fitch's more conservative 6% investment return assumption. 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 liability is a modest burden at 0.2% of personal income.

Operating Performance

Fitch expects the county's superior financial resilience will be maintained through a typical economic cycle due to notable budget flexibility, modest historical revenue volatility, and a historically strong reserve cushion (maintained in excess of Fitch's calculated reserve safety margin). These credit strengths should enable the county to navigate the current economic environment with little or no loss of financial resilience.

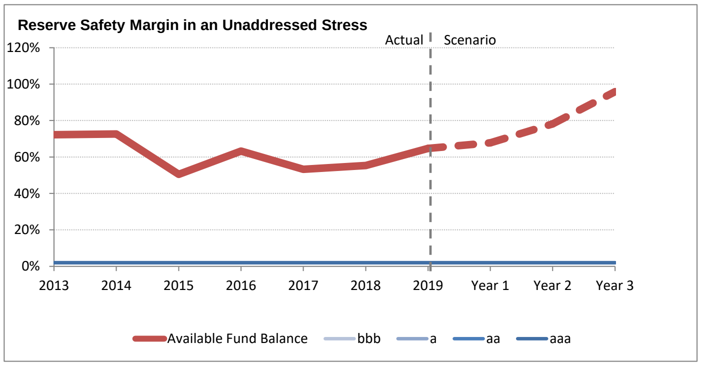
Management has a history of conservative budgets with actual results typically outperforming expectations. The fiscal 2019 general fund results included a $2.8 million surplus after transfers, increasing the unrestricted fund balance to $20.5 million or a substantial 65% of spending and transfers out. The adopted fiscal 2020 general fund budget included the use of $2 million in reserves for the jail project, to be reimbursed from proceeds of the recent LT bond issue. According to management, fiscal 2020 revenue estimates indicate nearly on-budget results, and departmental operational spending is indicating roughly 7% below budget performance. Including the approximate $2 million in transfers out that have not occurred results in an 11.6% estimated underspending as compared to budget. Overall, absent any closing adjustments, preliminary net results for fiscal 2020 point to an approximate $4 million addition to fund balance. The county has adopted a balanced budget for fiscal 2021, with general fund revenues and expenses planned for approximately $37.4 million and a reduction in the overall tax property rate from the prior year of $0.325 per $100 TAV to $0.3131. The majority of the rate reduction occurred in the maintenance and operations component.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Rockwall County (TX)

Scenario Analysis



Analyst Interpretation of Scenario Results:
Fitch expects the county's superior financial resilience will be maintained through a typical economic cycle due to notable budget flexibility, modest historical revenue volatility, and a historically strong reserve cushion (maintained in excess of Fitch's calculated reserve safety margin). These credit strengths should enable the county to navigate the current economic environment with little or no loss of financial resilience.

Scenario Parameters:					Year 1	Year 2	Year 3
GDP Assumption (% Change)					(4.6%)	4.0%	3.0%
Expenditure Assumption (% Change)					0.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:*	**-5%**	*Case Used:*	**Baseline**	(5.3%)	10.5%	8.9%
Inherent Budget Flexibility						Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	25,824	26,156	29,590	30,142	30,882	32,345	34,337	32,524	35,926	39,110
% Change in Revenues	-	1.3%	13.1%	1.9%	2.5%	4.7%	6.2%	(5.3%)	10.5%	8.9%
Total Expenditures	24,932	25,467	26,639	27,856	28,045	30,060	31,164	31,164	31,787	32,423
% Change in Expenditures	-	2.1%	4.6%	4.6%	0.7%	7.2%	3.7%	0.0%	2.0%	2.0%
Transfers In and Other Sources	1,565	26	34	38	18	73	137	129	143	156
Transfers Out and Other Uses	371	160	5,400	534	3,843	1,796	500	500	510	520
Net Transfers	1,194	(134)	(5,366)	(497)	(3,825)	(1,724)	(363)	(371)	(367)	(365)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	2,086	555	(2,415)	1,789	(988)	561	2,810	990	3,772	6,323
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	8.2%	2.2%	(7.5%)	6.3%	(3.1%)	1.8%	8.9%	3.1%	11.7%	19.2%
Unrestricted/Unreserved Fund Balance (General Fund)	18,264	18,604	16,182	17,963	16,993	17,641	20,486	21,476	25,248	31,572
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	18,264	18,604	16,182	17,963	16,993	17,641	20,486	21,476	25,248	31,572
Combined Available Fund Bal. (% of Expend. and Transfers Out)	72.2%	72.6%	50.5%	63.3%	53.3%	55.4%	64.7%	67.8%	78.2%	95.8%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

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