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Ratings

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Summary:

Rockwall County, Texas; General Obligation

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Table Of Contents

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Credit Profile		
US$71.74 mil perm improv & rfdg bnds ser 2020 due 02/01/2045		
Long Term Rating	AA/Stable	New
US$20.285 mil unltd tax rd bnds ser 2020 due 02/01/2040		
Long Term Rating	AA/Stable	New
Rockwall County GO		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Rockwall County, Texas' series 2020 unlimited-tax road bonds and series 2020 permanent improvement and refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the county's existing GO debt. The outlook is stable.

Both series of 2020 bonds are a direct obligation of the county, payable from a combination of the levy and collection of a continuing annual ad valorem tax. The unlimited-tax road bonds are secured by an ad valorem property tax levied without limit as to rate or amount. The permanent improvement and refunding bonds are secured by an ad valorem property tax levied within the limits prescribed by law, on all taxable property in the county.

Despite state statutory tax-rate limitations, we do not differentiate between the county's limited-tax debt rating and its general creditworthiness based on the application of our criteria titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019, on RatingsDirect) since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources. 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. In fiscal 2019, the county's levy is well below the maximum at 32.50 cents per $100 of AV, 7.91 cents of which is dedicated to debt service.

Series 2020 permanent improvement and refunding bond proceeds (about $71.7 million) will be used to refund the series 2010 limited-tax refunding bonds and the series 2010 and series 2012A unlimited-tax road bonds. In addition, proceeds will be used to for jail expansion. The series 2020 unlimited-tax road bonds (about $20.3 million) will fund road projects. After the issuance of these bonds, the county will have about $156.7 million of GO (limited- and unlimited-tax) bonds outstanding.

Credit overview

The county has benefited from its access to the diverse and expanding Dallas-Fort Worth-Arlington metropolitan statistical area (MSA). Due to the combination of a growing tax base and prudent budget management, the county has grown its reserves to a very strong level of about 65% for fiscal 2019, which we think positions the county well to navigate the COVID-19-prompted recession. S&P Global Ratings believes that the COVID-19 pandemic has caused the national economy to fall into a recession (See "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020.) The scope of COVID-19-induced economic impact at the local level will vary, and stability of the rating will depend on the county's ability to adapt its budget to a rapidly changing economic environment. We understand the county is currently reviewing departmental budgets to identify cost savings.

The rating also reflects our view of the county's:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 65% of operating expenditures;
- Very strong liquidity, with total government available cash that we expect will improve in the near term relative to its fiscal 2019 levels at 41.6% of total governmental fund expenditures and 215.4% of governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 18.8% of expenditures and net direct debt that is 324.5% of total governmental fund revenue; and
- Strong institutional framework score.

The stable outlook reflects the county's reliance on property tax revenues, which should have earlier warning indicators than consumption-based taxes, and very strong reserves that should buffer a decline in revenues sufficient to allow the county to make budget adjustments.

Stable Outlook

Downside scenario

We could lower the rating if budgetary performance were to weaken, resulting in decreased budgetary flexibility and liquidity, or if economic indicators were to weaken significantly to levels we no longer consider commensurate with those of similarly rated peers. We could also lower the rating if additional debt issuance were to outpace the rate of tax base growth, resulting in a significant increase to an already elevated debt profile.

Upside scenario

Although we believe it is unlikely to occur during the outlook period, should the local economy continue to grow, becoming more in line with those of higher-rated peers, and if financial performance remains strong during the recessionary period and more financial policy and practices are formalized, we could raise the rating.

Credit Opinion

Very strong economy

We consider the county's economy very strong. Rockwall County, with an estimated population of 111,704, is located in the Dallas-Fort Worth-Arlington, Texas, MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 141% of the national level and per capita market value of $113,555. The county's market value grew by 8.5% over the past year to $12.7 billion in 2020. The county unemployment rate was 3.2% in 2018.

Although a lagging indicator of rapidly changing events, the MSA unemployment rate was largely unchanged between January and February 2020 at 3.3% and 3.2%, with the size of the civilian labor force also remaining stable at just over 4 million. March figures are not yet available at the MSA level, but the state preliminary unemployment rate rose slightly to 4.7% from 3.5% for February. We expect the unemployment rate to continue to rise based on growing claims for unemployment insurance in the state, as reported in the Department of Labor's weekly report.

Rockwall County is the smallest county in the state (by area), located directly east of and adjacent to Dallas County. Rockwall County's largest city and county seat is Rockwall, located approximately 30 miles east of downtown Dallas. Interstate 30, a major thoroughfare in the Dallas/Fort Worth metroplex, runs through the county and provides residents with convenient access to downtown Dallas. Rockwall County also contains Lake Ray Hubbard, which is a significant water supply source for the Dallas area. The lake is a local tourist draw, surrounded by several restaurants and retail shopping venues.

The county has benefitted from the rapid expansion of the Dallas-Fort Worth-Arlington MSA and is one of the fastest-growing counties in north Texas. AV increased 36% between fiscal 2016 and 2020 to $12.7 billion. New development includes continued growth in building permits throughout the county and construction of multiple business parks, a couple of big-box retailers, and expansion of plastics manufacturer. Officials reported that the local economy has not experienced a significant decline in economic activity since the onset of COVID-19 and related containment measures, and closures have been minimal. In addition, stores that produce the most retail activity in the county are essential in nature, such as Wal-Mart, Costco, home improvement stores, and grocers. However, despite long-run expansion prospects for the MSA, including the county, growth could be stifled by a protracted recession and job losses could undermine housing demand.

Strong management

We view the county's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

When formulating the subsequent year's budget, officials use several years of historical data analysis to create revenue and expenditure assumptions. In addition, they work with the county appraisal district to project property values and analyze AV trends. The county commission receives monthly budget-to-actual financial results and can amend the budget throughout the fiscal year as needed. The county performs some informal long-term financial planning for operations during the budget process, and conducts a long-term debt service affordability forecast for its capital planning.

Rockwall County has a formalized investment policy in line with state guidelines, and monthly investment holdings reports are provided to the county commission. The county also maintains a formal debt management policy that outlines guidelines and restrictions regarding its debt issuance. Finally, the county has a formal reserve policy that requires it to maintain four to six months' annual budgeted expenditures in reserve, which it has historically adhered to.

Adequate budgetary performance

Rockwall County's budgetary performance is adequate, in our opinion. The county had surplus operating results in the general fund of 8.7% of expenditures, but a deficit result across all governmental funds of 4.1% in fiscal 2019. When assessing the county's budgetary performance, we have adjusted revenues and expenditures up for recurring transfers.

The county has historically displayed strong and stable budgetary performance, due in large part to conservative budgeting. Rockwall County generally outperforms revenue assumptions at fiscal year-end, due to its strong revenue growth in recent years and budgeting property tax collections below historical performance at 98%; also, the county often spends less than budgeted expenditures. However, with the onset of the global recession triggered by COVID-19, we anticipate the rate of growth in its economy will slow, translating to slower revenue growth. For the current year, officials report being on track with the budget, with sales tax revenue from retailers such as Wal-Mart up over the prior year. The county is tracking COVID-19-related expenses, which it does not expect will pressure the budget given underspending due to closures and a budgeted contingency of $500,000. Although the fiscal 2021 budget has not yet been developed, management and commissioners are working closely with each department to identify needs and areas that can be cut.

The county's general fund revenues are primarily property taxes (82%) and sales tax revenue representing a small 4% of total general fund revenue. As a result, we do not expect the sudden stop to the economy to have an immediate impact on revenue given the low reliance on sales taxes, which tend to be more volatile during economic stress. Recessionary effects on AV tend to lag about a year, and the county total property tax collections had already reached 84% by January.

Very strong budgetary flexibility

Rockwall County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 65% of operating expenditures, or $20.5 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.

In our view, the county will likely sustain very strong reserves as we believe that, in keeping with its traditionally conservative budgeting practices, the county will likely continue to budget for balanced operations annually, and it will make intrayear expenditure and revenue adjustments to balance the budget at year-end and remain with the parameters of its formalized reserve policy of maintaining four to six months of operating expenditures in reserve. In addition, the county had previously funded about $2 million of the jail project with fund balance, which it expects to reimburse from these bond proceeds.

Very strong liquidity

In our opinion, Rockwall County's liquidity is strong, with total government available cash that we expect will improve in the near term relative to the fiscal 2019 levels of 41.6% of total governmental fund expenditures and 215.4% of governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

At fiscal year-end 2019, the county had about $20.4 million of unrestricted cash and investments available for liquidity purposes. The county had previously funded about $2 million of the jail project with fund balance, which it expects to reimburse from these bond proceeds. Rockwall County maintained a very strong liquidity position historically, in our view. Our opinion of the county's strong access to external liquidity is supported by its frequent issuance of GO bonds over the past two decades. We do not believe the county has any aggressive investments, with investments held in U.S government securities and in state investment pools. The county has one privately placed debt issue outstanding; however, the bond provisions do not contain any language that we consider a potential liquidity risk. Therefore, we anticipate the county will maintain its very strong liquidity position in the near term.

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 18.8% of total governmental fund expenditures, and net direct debt is 324.5% of total governmental fund revenue.

After the issuance of the series 2020 bonds, the county will have about $156.5 million of GO (limited- and unlimited-tax) bonds outstanding. Although the city reports it does not have additional debt plans at this time, it does have available unissued bond authorization of $12.2 million for roads and $300,000 for the jail project, approved by votes in 2008 and 2018, respectively. The series 2020 permanent improvement and refunding bond proceeds (about $71.7 million) will be used to refund the series 2010 limited-tax refunding bonds and the series 2010 and series 2012A unlimited-tax road bonds. In addition, proceeds will be used to for jail expansion. The series 2020 unlimited-tax road bonds (about $20.3 million) will fund road projects.

We understand that a portion of the debt service on the county's series 2012A bonds will be paid from amounts received pursuant to a pass-through toll agreement between Rockwall County and the Texas Department of Transportation (TxDOT). Under the agreement, when road projects are 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 do not expect Rockwall County to receive its first payment until fiscal 2020. S&P Global Ratings does not yet view this debt as self-supporting because three years of audited data are 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.

Pensions and other postemployment benefits (OPEBs)

We do not view pension and other postemployment benefit liabilities as an immediate credit risk as current contributions are manageable and the plan is nearly fully funded. The county's pension contributions totaled 3.7% of total governmental fund expenditures in 2019. While we expect contributions will remain affordable for the county, the aggressive discount rate of 8.1% could lead to some contribution volatility.

The county participates in the following plans:

- Texas County and District Retirement System (TCDRS): 95.6% funded (as of Dec. 31, 2018), with the county's proportion of the net pension liability of $2.89 million, and
- Postretirement health and life insurance benefits are provided through a single-employer defined-benefit health care plan and funded a pay-as-you go basis, with a liability of $12.1 million as of Sept. 30, 2019.

TCDRS is a statewide administered nontraditional defined-benefit pension plan. Actuarially determined contributions (ADC) exceeded our minimum funding progress (MFP) metric and static funding calculation. The MFP metric assesses whether the most recent employer and employee contributions cover total service cost, plus unfunded interest cost, plus one-thirtieth of the principal. When MFP is achieved, it indicates that an issuer has a strong funding discipline that aims to ensure timely progress on reducing its plans' liabilities. An additional assumption that we view as positive is a short five-year amortization period, well below the 20 years that we consider an adequate pay-down rate. However, the discount rate is aggressive at 8.1%, and the plan uses static funding and level percent of payroll funding method, which could lead to contribution increases.

Strong institutional framework

The institutional framework score for Texas counties is strong.

Related Research

- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 4, 2020)		
Rockwall County GO		
Long Term Rating	AA/Stable	Affirmed
Rockwall County GO		
Long Term Rating	AA/Stable	Affirmed
Rockwall County GO		
Long Term Rating	AA/Stable	Affirmed