

RatingsDirect®

Summary:

Rockwall County, Texas; General Obligation

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Rockwall County, Texas; General Obligation

Credit Profile

US\$12.535 mil unlt'd tax road bnds ser 2023 due 02/01/2043

| | | |
|-------------------------|------------|-----|
| <i>Long Term Rating</i> | AA+/Stable | New |
|-------------------------|------------|-----|

Rockwall County GO

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AA+/Stable | Upgraded |
|-------------------------|------------|----------|

Rockwall Cnty ltd tax rfdg bnds ser 2020 due 02/01/2032

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AA+/Stable | Upgraded |
|-------------------------|------------|----------|

Rockwall County GO

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AA+/Stable | Upgraded |
|-------------------------|------------|----------|

Credit Highlights

- S&P Global Ratings raised its rating to 'AA+' from 'AA' on Rockwall County, Texas' general obligation bonds outstanding due to continued economic expansion and consistent and sustained very strong reserves.
- At the same time, we assigned our 'AA+' rating to the county's anticipated \$12.5 million series 2023 unlimited tax road bonds.
- The outlook is stable.

Security

The series 2023 bonds are payable from an unlimited ad valorem tax levied on all taxable property within the county. We understand that the proceeds will be used for road projects.

The limited tax bonds outstanding are payable from 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 2023, the county's levy is well below the maximum at 29.2 cents per \$100 of AV, 6.49 cents of which is dedicated to debt service.

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 very strong levels that exceed its solid reserves policy of maintaining four to six months. As one of the fastest-growing counties in the MSA, it has benefited from strong revenue growth that we expect would slow with a cooling of the real estate market as borrowing costs rise. However, while the overheated Dallas area real estate

market may slow, we do not expect growth stagnation in Rockwall County and believe that its prudent budgeting practices will enable it to adjust to economic impacts and maintain reserves within its policy parameters.

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

- Economy that exhibits very strong income metrics and benefits from participation in a broad and diverse MSA;
- Good financial policies and practices under our Financial Management Assessment (FMA) methodology and strong institutional framework score;
- Strong budgetary performance and very strong budgetary flexibility, buoyed by prudent budgeting practices; and
- Very weak debt profile; however, the county currently has no plans to issue additional debt and voter-approved bond authorization for roads is supported by an unlimited ad valorem tax.

Environmental, social, and governance

The rating incorporates our view of the county's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile, which we view as neutral to our credit analysis.

Outlook

The stable outlook reflects our expectation that despite a lack of formal long-term planning tools, the county will continue to generate balanced operations and maintain reserves that adhere to its reserves policy, despite any economic volatility, due to prudent practices used to develop its budget.

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 very strong. 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 this is unlikely to occur during the outlook period, should the local economy continue to grow to a level more in line with that of higher-rated peers while at the same time debt metrics moderate, we could consider raising the rating.

Credit Opinion

Rapidly growing economy

Located directly east of and adjacent to Dallas County, Rockwall County is one of the fastest-growing in north Texas. Although it is the smallest county in the state (by area), management estimates that it is not yet 50% built out. It remains primarily residential, with single-family units accounting for 74% of 2023 AV and representing 81% of the \$5.9 billion of AV growth (before exemptions) for 2023. The residential development has been accompanied by the retail businesses and restaurants that typically follow population growth. In addition, the county has several large corporate parks that have attracted business relocations, with at least 300 additional high-wage jobs expected. Because of rising

interest rates and inflation pressures on households, we would expect residential market price growth to slow compared to recent years. In addition, rising borrowing costs for developers could also result in a slowing of new construction. However, given an already short supply of housing, we expect a slowing but not a contraction in AV growth.

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 source for the Dallas area. The lake is a local tourist draw and is surrounded by several restaurants and retail shopping venues.

Revenue growth and controlled spending driving constitutently better-than-budgeted performance

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 to budgeting property tax collections at 98%, which is below historical performance; also, the county often spends less than budgeted expenditures. Its general fund revenues are primarily property taxes (82%), with sales taxes representing a small 4% of total general fund revenue. As such, it has benefited from recent robust construction. While the overheated Dallas real estate market may slow, we do not expect growth stagnation.

For fiscal 2022, after transfers out for vehicle purchases, management expects to post at least a \$1 million general fund surplus, or about 2% of original budgeted general fund expenditures. For fiscal 2023, notable items include a \$100,000 contingency and increased public safety spending, including a courthouse expansion design, juvenile programs, and staff for a jail expansion. In addition, the county lowered the property tax rate while still being able to fund service growth and has been contributing to its pension at a rate of 9%, slightly higher than the system's required rate of 8.7%. The budget does include a modest draw on the general fund balance of about \$500,000 for a one-time project to digitize archived documents.

Despite a potential slowdown in AV growth that would result in a slowing of the county's main revenue source, we expect that the county's budgeting practices will continue to generate balanced operations and reserves that adhere to its policy.

The county has a privately placed bond, the series 2015 permanent improvement refunding bonds, with a principal balance of \$4.6 million outstanding at the end of fiscal 2021. We do not view it as an immediate liquidity risk as the provisions are standard, under our criteria, and do not include acceleration.

Good financial policies and practices under our Financial Management Assessment methodology

Highlights of the policies and practices under our FMA include:

- 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 weekly and 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, but does not currently maintain formal multi-year financial forecasts or a comprehensive capital improvement plan; and
- The 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.

The institutional framework score for Texas counties is strong.

Despite rapid growth, the county currently has no additional debt plans

We understand that the bonds are the final issuance under a 2008 voter-approved GO bond authorization for roads. The county currently has no plans to issue additional debt. However, after the issuance of the series 2023 bonds, the county will have about \$150 million of GO bond authorization for roads remaining. It is currently designing a courthouse expansion to add additional courtrooms. The funding sources of the full project have not yet been determined. This follows the recent jail expansion funded by bond proceeds in 2020.

Pensions and other postemployment benefits (OPEBs) not an immediate credit risk

We do not view pension and OPEB liabilities as an immediate credit risk as current contributions are manageable and the plan is nearly fully funded. While we expect that contributions will remain affordable for the county, the aggressive discount rate of 7.5% could lead to some contribution volatility.

The county participates in the following plans:

- Texas County and District Retirement System (TCDRS): 98.5% funded (as of Dec. 31, 2020), with the county's proportion of the net pension liability of \$1.2 million; and
- Postretirement health and life insurance benefits provided through a single-employer defined-benefit health care plan and funded a pay-as-you go basis, with a liability of \$14.4 million as of Sept. 30, 2021.

TCDRS is a statewide administered nontraditional defined-benefit pension plan. Actuarially determined contributions 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. However, the discount rate is aggressive at 7.5%, and the plan uses static funding and level percent of payroll funding method, which could lead to contribution increases.

Rockwall County, TX: Key Credit Metrics

| | Most recent | Historical information | | |
|------------------------------------|-------------|------------------------|------|------|
| | | 2021 | 2020 | 2019 |
| Very strong economy | | | | |
| Projected per capita EBI % of U.S. | 128.3 | | | |
| Market value per capita (\$) | 144,947 | | | |
| Population | | 107,191 | | |

Rockwall County, TX: Key Credit Metrics (cont.)

| | Most recent | Historical information | | |
|---|-------------|------------------------|--------|--------|
| | | 2021 | 2020 | 2019 |
| County unemployment rate (%) | | 4.3 | | |
| Market value (\$000) | 18,400,983 | 13,841,931 | | |
| Ten largest taxpayers % of taxable value | 3.0 | | | |
| Strong budgetary performance | | | | |
| Operating fund result % of expenditures | | 8.3 | 4.8 | 8.7 |
| Total governmental fund result % of expenditures | | 10.0 | 7.4 | (2.0) |
| Very strong budgetary flexibility | | | | |
| Available reserves % of operating expenditures | | 71.8 | 63.5 | 64.7 |
| Total available reserves (\$000) | | 25,235 | 22,291 | 20,486 |
| Very strong liquidity | | | | |
| Total government cash % of governmental fund expenditures | | 51.0 | 48.7 | 41.4 |
| Total government cash % of governmental fund debt service | | 232.8 | 241.4 | 215.4 |
| Strong management | | | | |
| Financial Management Assessment | Good | | | |
| Very weak debt & long-term liabilities | | | | |
| Debt service % of governmental fund expenditures | | 21.9 | 20.2 | 19.2 |
| Net direct debt % of governmental fund revenue | 254.7 | | | |
| Overall net debt % of market value | 5.8 | | | |
| Direct debt 10-year amortization (%) | 56.2 | | | |
| Required pension contribution % of governmental fund expenditures | | 3.5 | | |
| OPEB actual contribution % of governmental fund expenditures | | 0.7 | | |
| Strong institutional framework | | | | |
| EBI--Effective buying income. OPEB--Other postemployment benefits. | | | | |

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of December 29, 2022)

Rockwall County GO

Long Term Rating

AA+/Stable

Upgraded

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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