

FITCH AFFIRMS ROCKPORT TX'S GOS AND COS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-21 July 2015: Fitch Ratings affirms the ratings on the following bonds of Rockport, Texas (the city)

--\$990,000 outstanding limited tax general obligation (LTGO) bonds, series 2009 at 'AA-';
--\$10 million outstanding combination tax and revenue certificates of obligation (CO), series 2007 and 2009 at 'AA-'.

The Rating Outlook is Stable

SECURITY

The bonds are direct obligations of the city payable from an annual ad valorem tax levied against all taxable property within the city subject to a maximum tax levy for general city purposes of \$2.50 per \$100 of assessed value. The COs are further secured by a pledge of surplus revenues from the city's waterworks and sewer system.

KEY RATING DRIVERS

HEALTHY FINANCIAL FLEXIBILITY: The city maintains a high level of financial flexibility with low tax rates and prudent financial management. Maintenance of solid reserves offsets the potential volatility of sales tax revenue dependence and the modest scale of financial operations.

TOURISM-BASED ECONOMY: The city's economy is somewhat limited as tourism based. Wealth indicators are mixed and reflect a large tourism and retiree population.

MIXED DEBT PROFILE: Debt levels are relatively high on a per capita basis, although more moderate relative to taxable assessed value (TAV), and reflect overlapping school district debt. Carrying costs are high but amortization is rapid. Pensions are well funded.

RATING SENSITIVITIES

RESERVES OFFSET LIMITED ECONOMY: Management's maintenance of high reserve levels is necessary to mitigate the risks posed by Rockport's reliance on tourism and potential revenue volatility.

CREDIT PROFILE

The bayside community of Rockport, located on the Gulf of Mexico, lies 31 miles north of downtown Corpus Christi and is the county seat of Aransas County (the county). The area is largely a vacation and retirement community, with tourism an important economic factor. The 2014 estimated population is 9,357.

GROWING TAX BASE AND ECONOMIC ACTIVITY

The district's tax base demonstrates modest growth with TAV increasing 1.7% in fiscal 2014 and 2.3% in fiscal 2015. The city anticipates continued modest growth in TAV over the next few years, which Fitch believes is reasonable given the city's gradually expanding population and the broader overall housing recovery.

Notable real estate developments in the area include two large vacation home subdivisions titled the Islands of Rockport and the Reserve at St. Charles Bay. Tourism activity is also expanding, as evidenced by hotel occupancy tax collections (11% of total 2014 general fund revenues) that have rebounded after experiencing a drop in fiscal 2009. Since 2009, hotel occupancy taxes have experienced average growth of 7.1% as a result of the building of additional hotels and improved tourism activity.

SOLID FINANCIAL POSITION; MODEST SCALE

Fitch notes positively the city's adoption in 2013 of a formal fund balance policy equal to 180 days of operations (approximately 49% of spending). Maintenance of sound reserves is important given the city's reliance on inherently volatile sales tax revenues and a relatively small dollar amount of reserves. Although property taxes are the city's main revenue source, accounting for nearly 40% of total general fund revenues, sales tax revenue is the second largest revenue source. Total governmental sales tax collections stumbled slightly due to recessionary pressure from 2008 to 2009, but 2014 was a record collection year with an increase of 8.7% from the year prior. With recent positive operating performance, the city is close to reaching its fund balance target at approximately 170 days (44% of spending in fiscal 2014). Management hopes to achieve its targeted reserve level over the next few years.

Recent financial operations have varied with a general fund deficit in fiscal 2013 resulting in large part from a one-time payment to close a deficit in the Beach Park Fund. Beginning in fiscal 2014, the Navigation District took over the Beach Park Fund from the city. Fiscal (FY) 2014 ended with a \$221,000 operating surplus (after transfers), raising the unrestricted fund balance to \$3 million or 43.5% of spending. FY 2015 is budgeted to increase fund balance by \$35,000 or 0.9%. However, the city currently projects that the actual surplus will be higher due to better-than-budgeted revenues. Preliminary FY 2016 budget discussions indicate a balanced performance.

The general fund receives a high level of transfers from the city's historically profitable utilities and natural gas funds. These transfers represent reimbursements for services rendered and are calculated annually based on a formula created by management. Reimbursements from these funds were attributable for 15.1%, or \$930,000, of general fund revenues in FY 2014.

MIXED DEBT PROFILE

High debt per capita of \$5,198 reflects in part significant overlapping debt of the local school district and the relatively small year-round population. Debt to market value is more moderate at 3.6%. Although carrying costs make up a high 29.8% of governmental fund spending, of these costs, debt service costs includes debt that is supported by the city's waterworks and sewer system.

Fitch believes these costs are offset by the city amortizing its debt at a rapid pace (71.4% retired within the next 10 years).

In FY 2014 and 2015, the city issued combination tax and revenues certificates and general obligation bonds (not rated by Fitch) to fund projects related to the water/sewer and park system and refund prior debt. Both series are payable from the city's ad valorem tax and are further secured by excess revenues from the city's waterworks and sewer system.

The city participates in the CSME Texas Municipal Retirement System (TMRS) and the city fully funds the annual required contribution (ARC), resulting in a solid 85.4% funded position as of Dec. 31, 2013. Fitch does not believe that the plan will create future funding pressure for the city. The city's other post-employment benefits (OPEB) pay-go cost is budgeted annually and is subject to annual appropriation.

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In addition to the sources of information identified in Fitch's Master Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria

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

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