

RatingsDirect®

Summary:

Rockport, Texas; General Obligation

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Credit Profile

US\$14.415 mil GO rfdg bnds ser 2022 dtd 03/22/2022 due 02/15/2037		
<i>Long Term Rating</i>	AA-/Stable	New
US\$8.1 mil tax nts ser 2022 dtd 03/22/2022 due 02/15/2029		
<i>Long Term Rating</i>	AA-/Stable	New
Rockport GO		
<i>Long Term Rating</i>	AA-/Stable	Upgraded

Rating Action

S&P Global Ratings has raised its long-term rating on Rockport, Texas' limited-tax bonds and certificates to 'AA-' from 'A+'. At the same time, we have assigned our 'AA-' rating to the city's anticipated \$8.1 million tax notes series 2022 and \$14.4 million general obligation (GO) refunding bonds series 2022. The outlook is stable.

The notes and bonds, along with existing debt, constitute direct obligations of the city payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the city. Previously issued certificates are further secured by a lien on and pledge of surplus revenues of the city's waterworks and sewer system. Given the limited nature of the revenue pledge, we rate the certificates based on the city's ad valorem pledge alone. Despite state statutory tax rate limitations, we do not differentiate between the limited-tax debt rating and the city's general creditworthiness, given that the ad valorem taxes are collected from the same tax base and there are no restrictions on what the limited tax can be used for, which supports our view of the city's overall ability and willingness to pay debt service. Proceeds from the current notes will provide additional funds to construct and equip judicial facilities (municipal court) and other facilities, including other administrative facilities for the city, all within a new city hall, acquire vehicles and other equipment for various city departments, and to construct drainage improvements at various locations in the city. The notes will also support funding of streets, curbs, and sidewalk improvements at various locations in the city, together with utility relocation and/or drainage improvements. Proceeds from the bonds will refund existing debt for projected net present value savings.

Credit overview

The upgrade reflects the city's expanding tax base that exceeds pre-hurricane levels, and maintenance of stable financial metrics and reserves. Rockport's resiliency has remained strong in the wake of Hurricane Harvey's impact in 2017. Rebuilding is ongoing in the community, but additional economic activity, including new home construction and expansion of businesses, is fueling market value gains. Although the city does have plans for future debt, its debt and pension liability profile remains stable. Future credit reviews will focus on Rockport's ability to hold very strong reserves, considering its susceptibility to heavy storms from the Gulf of Mexico and the damage and loss of property that could occur.

The rating also reflects our opinion of Rockport's:

- Expanding economy on the Gulf of Mexico;
- Standard financial management practices and policies;
- Stable budgetary performance with very strong reserves and liquidity; and
- Elevated debt profile and no near-term pension or other postemployment benefits (OPEB) pressures.

Environmental, social, and governance

We note there are elevated risks associated with large storms from the Gulf of Mexico, such as Hurricane Harvey, which can bring damaging winds, storm surges, and flooding. Nevertheless, we believe the city has sufficient reserves that provide a significant cushion to address unexpected expenditures or revenue declines associated with such storms. We have also analyzed social and governance risks relative to the city's economy, management, financial measures, and debt and liability profile. We have determined the city's social and governance risks are in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could raise the rating if the tax base continues to expand and diversifies and if the current elevated debt profile materially moderates. We could also raise the rating if stronger fiscal management practices and policies are installed, as well as more comprehensive planning around risks associated with hurricanes.

Downside scenario

We could lower the rating if budgetary performance weakens materially, leading to sustained operating deficits and a resulting decline in reserves below what we consider very strong.

Credit Opinion

Local economy continues to expand and recover from Hurricane Harvey

Rockport is located along the Aransas Bay north of Corpus Christi. Its economy is largely tourism-based. During the height of tourist season, typically in the summer, the population significantly rises. In August 2017, the city was hit directly by Hurricane Harvey, which caused widespread devastation; however, following rebuilding, development, and activity in the local economy, its total market value has exceeded \$2 billion and surpassed pre-hurricane levels.

Rockport lies in a 40--mile radius of several industrial and distribution facilities that support the local economy and employment. They include to Steel Dynamics, Chenier, Exxon-Gulf Coast Growth Ventures, ThyssenKrupp, TCPO America, Port of Corpus Christi, Voestalpine, and the Corpus Christi Naval Air Station. Market value predominately consists of single-family residential properties (75% of the total tax base), with commercial and industrial properties making up only 13%. The top 10 taxpayers are diverse, make up a modest 3.9% of the total tax base, and include apartment complexes, boat storage, an RV park, grocery and discount stores, and a utility. Officials report there are several housing and commercial projects in some phase of development that will establish approximately 500

apartment units, 1,000 houses, and 2,200 utility connections in the next three-to-five years. In conjunction with the housing, multiple retail and restaurant facilities are under construction. Despite the difficulties associated with Hurricane Harvey, the city's economic expansion is a particular credit positive and is reflected in the upgrade.

Maintenance of strong to very strong financial metrics and reserves

For fiscal 2020, the city made changes to daily operations to limit the impact of the COVID-19 pandemic on budget performance. Ongoing economic expansion and increases in property and sales tax revenues supported positive operations. For fiscal 2020, the general fund posted a \$585,232 operating surplus following transfers in and out of the fund. City officials report continued positive performance through fiscal 2021. They anticipate positive budget variances and adding \$636,247 to general fund balance for fiscal 2021. Sales tax collections have steadily increased, rising on average about 5% annually in the past five years. Officials report year-to-date budgetary performance is stable and the city has no plans to draw down reserves or cash in the near term. Further bolstering the financial position is the use of federal aid. Rockport received \$1.3 million in American Rescue Plan Act money and expects a similar amount in late fiscal 2022. Officials have identified a wastewater treatment plant project to use the majority of the aid dollars.

Standard financial management practices and policies

Officials use a multiyear trend of historical data, as well as other sources, when developing revenue and expenditure assumptions. Budget to actual performance is shared with the city council monthly. The city prepares and maintains a multiyear long-term financial plan for the major operating funds. The plans are published in the annual operating budget document. Rockport has a multiyear capital plan for all aspects of operations. Projects are reviewed annually during the budget process. The city also uses a 20-year comprehensive plan, which was updated for 2022. It has a formal investment policy and updates the council monthly on the investment portfolio. Rockport has a basic debt policy that outlines debt issuance and authorization. It has a formal reserve target of six months of operating expenses for major operating funds; however, reserves at fiscal year-end 2020 were below this benchmark. Finally, the city uses multiple levels of security to protect against cyber attacks.

Elevated debt profile with rapid amortization

Post-sale, Rockport will have approximately \$40 million in limited-tax debt outstanding in the form of GO bonds, certificates, and tax notes. We do not believe any of the obligations would put any near-term stress on the city's liquidity position. Although the debt profile is elevated, principal payout is rapid, with 76% of principal retired in 10 years. Rockport has plans for additional borrowing in the coming years, which will likely be associated with utility infrastructure, streets and drainage, and park improvements.

Pension and OPEB liabilities:

We do not view pension and OPEB liabilities as an immediate credit risk. Rockport participates in the Texas Municipal Retirement System, a nontraditional, joint contributory, hybrid defined-benefit pension plan administered by the state. The city's net pension liability was approximately \$5.3 million as of Dec. 31, 2019, and the plan's funded ratio was 85%, assuming a 6.75% discount rate. Fiscal 2020 actual contributions fell short of our minimum funding progress calculation and modestly surpassed our static funding progress metric. In general, we expect progress toward full funding will be slower, given the plan's amortization basis of level-percent using a payroll growth assumption of 3.5%, although it is over a closed period of 25 years. The city provides OPEB for certain employees in the form of health and

supplemental death benefits and funds the obligations on a pay-as-you-go basis. The city's net OPEB liability is \$5.4 million.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Rockport, Texas -- Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
Strong economy				
Projected per capita EBI % of U.S.	101			
Market value per capita (\$)	225,364			
Population		8,997	9,623	9,752
County unemployment rate(%)		8.5		
Market value (\$000)	2,027,604	1,810,222	1,665,942	1,460,752
Ten largest taxpayers % of taxable value	3.9			
Strong budgetary performance				
Operating fund result % of expenditures		5.5	(7.1)	19.3
Total governmental fund result % of expenditures		5.9	(0.4)	8.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		37.2	30.5	35.7
Total available reserves (\$000)		3,936	3,356	4,145
Very strong liquidity				
Total government cash % of governmental fund expenditures		82	75	70
Total government cash % of governmental fund debt service		549	483	457
Adequate management				
Financial Management Assessment	Standard			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		15.0	15.5	15.2
Net direct debt % of governmental fund revenue	181			
Overall net debt % of market value	2.6			
Direct debt 10-year amortization (%)	80			
Required pension contribution % of governmental fund expenditures		7.0		
OPEB actual contribution % of governmental fund expenditures		1.3		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of February 15, 2022)

Rockport comb tax and rev certs of oblig		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
Rockport comb tax and rev certs of oblig ser 2014 dtd 06/15/2014 due 02/15/2034		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
Rockport Comb Tax and Rev Certs of Obligation ser 2015 dtd 01/15/2015 due 02/15/2016-2020 2022 2025 2028 2030 2032 2035		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
Rockport GO		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
Rockport GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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