

RatingsDirect®

Summary:

Rockport, Texas; General Obligation

Primary Credit Analyst:

Lauren H Spalten, Dallas (1) 214-871-1421; lauren.spalten@standardandpoors.com

Secondary Contact:

Emmanuelle Lawrence, Dallas (1) 214-871-1473; emmanuelle.lawrence@standardandpoors.com

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Rockport, Texas; General Obligation

Credit Profile

US\$7.15 mil GO Rfdg Bnds ser 2015 dtd 01/15/2015 due 02/15/2027		
<i>Long Term Rating</i>	AA/Stable	New
US\$2.0 mil Comb Tax and Rev Certs of Obligation ser 2015 dtd 01/15/2015 due 02/15/2035		
<i>Long Term Rating</i>	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Rockport, Texas' series 2015 general obligation (GO) refunding bonds and series 2015 combination tax and revenue certificates of obligation. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) on the city's GO debt outstanding. The outlook is stable.

The series 2015 bonds and series 2015 certificates are secured by the city's direct and continuing ad valorem tax levied annually against all taxable property, within limits prescribed by law. The certificates are further secured by a pledge of surplus revenue from the city's waterworks and sanitary sewer system. Bond proceeds will be used to refund a portion of the city's outstanding debt for savings purposes. Certificate proceeds will be used primarily to fund projects related to the city's park system.

The ratings reflect our view of the following factors for the city:

- Very strong economy, which benefits from its direct participation in the broad and diverse Corpus Christi metropolitan statistical area (MSA);
- Strong management with good financial policies;
- Very strong budgetary flexibility, with fiscal 2013 audited reserves greater than 30% of general fund expenditures;
- Strong budgetary performance, with estimated general fund and total governmental funds surpluses for fiscal 2014;
- Very strong liquidity providing very strong cash levels to cover expenditures and debt service as needed; and
- Weak debt and contingent liabilities position, although amortization is rapid.

Very strong economy

We consider Rockport's economy to be very strong, with access to and participation in the broad and diverse Corpus Christi MSA in Aransas County. The city is located 30 miles north of downtown Corpus Christi and roughly 160 miles southwest of San Antonio. Being close to the Gulf Coast, the economy is largely tourism based; only half of the city's population consists of permanent residents. However, the economy has diversified into retailing, light manufacturing, and oil production and refining. Recent development in Rockport includes continued residential development within the town and the expansion of several oil and gas-related projects in the area that city officials report should bring more residents to the city. Also, within the past year, two new hotels have opened.

The city has a projected per capita effective buying income of 116% of the U.S. and a per capita market value of

approximately \$168,000 for fiscal 2015. Since fiscal 2011, assessed value (AV) has increased an average of 1.8% per year. For fiscal 2015, AV increased roughly 2.3% to approximately \$1.47 billion, from \$1.43 billion in fiscal 2014. Management anticipates AV will continue to grow modestly between 1% and 2% in the next few years. There is no taxpayer concentration within the primarily residential tax base, with the 10 leading taxpayers accounting for about 4% of fiscal 2015 AV.

Strong management conditions with good financial practices

We view the city's management conditions as strong, with good financial practices under our Financial Management Assessment (FMA) methodology. This indicates financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Key practices include monthly budget updates and quarterly investment updates to the council, total revenue and expenditure projections for five years, and a long-term capital plan that is closely monitored and reviewed in an annual strategy session. The city adopted a policy to maintain 180 days' operations in the general fund balance in order to respond to unexpected events. The city does not have a formal debt management or long-term financial plan although it aims to develop a long-term strategic plan that will include financial and debt management policies.

Very strong budgetary flexibility

Budgetary flexibility remains very strong, with reserves averaging over 50% of expenditures for the past three fiscal years. While the city drew down reserves to \$2.8 million in fiscal 2013 from \$3.5 million in fiscal 2011, management estimates to have added roughly \$350,000 back for fiscal 2014, as per unaudited results. As a result, estimated fiscal 2014 reserves would equal approximately 56% of estimated expenditures. City officials do not have plans to significantly spend down on the city's reserves in the near term.

Strong budgetary performance

The city's budgetary performance has been strong overall, with a slight deficit of 1.7% for the general fund in fiscal 2013 and a surplus in total governmental funds of just under 14%, after making adjustments for one-time expenditures and recurring transfers. Property taxes and sales tax provided 49% and 23% of fiscal 2013 revenues, respectively. According to unaudited results for fiscal 2014, the city expects to have ended the year with a surplus of over 10% in the general fund and a surplus of about 8% in the total governmental funds. Management attributes the surpluses to property tax rate increases in fiscal years 2013 and 2014 and to stronger-than-anticipated sales tax receipts. The city has traditionally budgeted conservatively by overestimating expenditures and underestimating revenues. The fiscal 2015 budget reflects a surplus for the operating fund, and city officials report that the budget is trending positively for the year so far.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash more than 100% of total governmental fund expenditures and 4.7x debt service. We believe the city has a strong access to external liquidity given its frequent debt issuances, primarily of GO debt, in the past decade.

Weak debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is weak, with total governmental fund debt service at about 24% of adjusted total governmental fund expenditures, and net direct debt at about 236% of total governmental fund revenue. The overall net debt burden is 4.2% of market value. The amortization schedule is rapid, in our view --

about 70% of principal is due to retire within the next 10 years, and all debt is currently scheduled to retire by 2035 -- which we view as a credit strength. The city has no plans to issue GO debt in the near term.

The city currently participates in the Texas Municipal Retirement System (TMRS) to provide pension benefits for employees. Rockport contributed 99% in fiscal 2013 as prescribed by TMRS' "phase-in" plan following changes in actuarial cost methods beginning in 2009. The annual required contribution for fiscal 2013 was approximately 8% of adjusted total governmental expenditures. As of the latest actuarial study, dated Dec. 31, 2013, the city's pension plan was 81% funded.

Strong institutional framework

We consider the institutional framework score for Texas municipalities strong. See Institutional Framework score for Texas.

Outlook

The stable outlook reflects our anticipation that management will continue to sustain very strong reserves and liquidity. The outlook also reflects our view that AV growth will continue to be modest and provide budgetary support in the next two years. Should the debt and liability profile moderate and the economy continue to expand and diversify, we could raise the ratings. Conversely, if the debt and liability profile worsens and reserve levels deteriorate, there could be downward pressure on the ratings.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of January 9, 2015)

Rockport go rfdg bnds ser 2014 dtd 06/15/2014 due 02/15/2027

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Rockport GO

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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