

# RatingsDirect®

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## Summary:

# Rockport, Texas; General Obligation

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### Credit Profile

US\$20.75 mil comb tax and rev certs of oblig ser 2020 dtd 08/01/2020 due 02/15/2040

<i>Long Term Rating</i>	A+/Stable	New
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Rockport comb tax and rev certs of oblig

<i>Long Term Rating</i>	A+/Stable	Affirmed
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Rockport GO

<i>Long Term Rating</i>	A+/Stable	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'A+' rating to the City of Rockport, Texas' \$20.7 million combination tax and revenue certificates of obligation, series 2020. S&P Global Ratings also affirmed its 'A+' rating on the city's existing general obligation (GO) debt. The outlook on all ratings is stable.

The certificates 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. The certificates are additionally secured by a lien on and pledge of the surplus revenues derived from the ownership and operation of the city's waterworks and sewer system. Given the limited nature of the surplus utility revenues, we do not consider it in the analytical review. Despite state statutory tax-rate limitations, we do not differentiate between the city's limited-tax debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the city's overall ability and willingness to pay debt service.

The proceeds will be used to fund various projects throughout the city including the construction of city hall.

### Credit overview

The city's resiliency remains strong in the wake of Hurricane Harvey's impact in 2017, as key credit metrics such as fiscal performance, reserves, fiscal management practices and total market value remain stable. The city has established a trend of stable fiscal performance, and despite spikes in revenues and expenditures due to the hurricane, should maintain stable and very strong reserves over the near to medium term. Ample reserve should also support stability in a time of uncertainty related around negative effects of the global pandemic on revenue streams. Long-term effects will depend on the severity of the recession. (For more information, see "U.S. Economic Update: A Recovery At Risk As COVID-19 Surges," published July 22, 2020, on RatingsDirect.) Future credit reviews will focus on what influence the current situation has on the city as well as it's ability to respond in a timely and appropriate fashion to ensure maintenance of stable key credit metrics.

Key credit considerations include our view of the city's:

- Strong economy, with projected per capita effective buying income at 125% of the national level and market value per capita of \$171,315;
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment methodology;
- Weak budgetary performance, with an operating deficit in the general fund but break-even operating results at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash at 74.9% of total governmental fund expenditures and 4.8x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 15.5% of expenditures and net direct debt that is 268.4% of total governmental fund revenue; and
- Strong institutional framework score.

### **Environmental, social, and governance factors**

Our analysis of these risks encompasses our review of environmental, social, and governance risks that currently exist. We acknowledge the ongoing global pandemic and potential negative impacts it might have on various aspects of the city's creditworthiness. Absent COVID-19, we believe the social risks to be in line with the sector standard. We have also analyzed the environmental and governance risks and have determined that they are in line with our view of the sector standard. Although the city is located in a region prone to significant weather events, such as hurricanes, we believe the city has sufficient reserves that provide a significant cushion to address unexpected expenditures or revenue declines. We also believe that over time the city will continue to complete utility and infrastructure projects that are in part informed by the associated environmental risks.

## **Stable Outlook**

### **Downside scenario**

If the city finances deteriorate significantly as a result of negative impacts of the global pandemic or otherwise, we may lower the rating. Also if economic metrics deteriorate, we could also lower the rating.

### **Upside scenario**

If the city can maintain fund balances as recovery operations phase out, and can maintain a trend of positive budgetary performance, we may raise the rating.

## **Credit Opinion**

### **Strong economy**

We consider Rockport's economy strong. The city, with an estimated population of 9,623, is located in Aransas County. The city has a projected per capita effective buying income of 125% of the national level and per capita market value of \$171,315. Overall, the city's market value grew by 15.1% over the past year to \$1.6 billion in 2020. The

county unemployment rate was 4.3% in 2019.

Rockport is located along the Aransas Bay north of Corpus Christi. Rockport's economy is largely tourism-based and roughly half of the city's population consists of permanent residents. During the height of tourist season, typically in the summer, the city will experience a significant population boost. In August 2017, the city suffered a direct hit from Hurricane Harvey causing widespread devastation. From that time the city has been rebuilding infrastructure and the community has rebuilt residences and businesses. Despite significant impact from the storm, the city's total market value rebounded to exceed pre-Harvey levels, despite a 10% decline following the hurricane. Based on current development trends and activity, officials anticipate stable growth in market value for the current year. The city's tax base is predominately comprised of single-family residential properties (75% of the total tax base), and commercial and industrial properties (13%). The top 10 tax payers make up a modest 5.9% of the total tax base and include an electric utilities, grocery and discount stores, apartments, and boat storage facility. Officials note several developments are ongoing in the city, including Pearl Point, a multi-unit residential housing complex which is due to open in September 2020. Several other multi-family projects are in development and several single-family housing subdivisions are also nearing completion. While the city remains geographically prone to large storm events, we anticipate the market value to see modest gains in the near-term.

### **Adequate management**

We view the city's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Fiscal management 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 has a target of 180 days' operations in the general fund balance in order to respond to unexpected events although it is not currently meeting that target. The city does have a formal debt management policy, although it follows state guidelines and is not overly restrictive in nature.

### **Weak budgetary performance**

Rockport's budgetary performance is weak in our opinion. The weakness in budgetary performance is in part influenced by the current negative impact the global pandemic could have on particular revenue streams of the city. The city had deficit operating results in the general fund of negative 7.1% of expenditures, but a balanced result across all governmental funds of negative 0.4% in fiscal 2019.

Prior to Hurricane Harvey, the city had posted three consecutive surpluses. However, the city posted a large \$1.8 million deficit in fiscal 2017, attributable to Harvey Recovery expenditures. In fiscal 2018, the city posted a large surplus of over \$2.6 million. Officials attribute the large surplus to a significant spike in sales tax collections due to recovery activities, in addition to the city not filling 13 staffing vacancies. In fiscal 2019, the city's general fund expenditures of \$10 million outpaced revenues of \$8.7 million. Following transfers in and out of the fund, the operating deficit was due in part to spend down of additional revenues received in 2018. For fiscal 2019, 57% of total governmental fund revenues came from property taxes, 26% were derived from sales taxes, 8% were from franchise taxes, and 7% were from occupancy taxes.

For fiscal 2020 the city has made changes to daily operations in order to limit the impact of the global pandemic on budget performance. Travel for training has been placed on hold, a temporary hiring freeze was enacted in March requiring justification and city manager approval prior to filling vacated position, all capital purchases are reviewed and approved prior to purchase, and parks and the Aquatic Center have been closed at times. Officials note sales tax revenue has increased monthly since March 2020, yet hotel occupancy tax dropped to virtually zero during March and April. Hotel revenue has rebounded recently and the city anticipates to meet budgeted expectations for fiscal 2020. Officials anticipate a \$380,564 deficit in the general fund for fiscal 2020, however, the use of Hurricane Harvey related Community Disaster Loan proceeds should offset the negative impact on the General Fund year-end fund balance. Future credit reviews will examine the city's ability to regain a trend of structural balance as it distances itself from the impact of Hurricane Harvey and revenues and expenditures return to more normal trends.

### **Very strong budgetary flexibility**

Rockport's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 30% of operating expenditures, or \$3.4 million.

Rockport has historically maintained very strong reserves. After the storm, the city has seen reserves recover to historical levels, increasing to \$4.2 million or 38.6% of general fund expenditures after the drawdown in fiscal 2018. Officials have stated they intend to keep revenue and expenditure assumptions conservative despite the large spike in sales tax revenues. While a deficit is anticipated in 2020, we anticipate the city reserve position will remain relatively stable and very strong.

### **Very strong liquidity**

In our opinion, Rockport's liquidity is very strong, with total government available cash at 74.9% of total governmental fund expenditures and 4.8x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

We believe the city has strong access to external liquidity if necessary, as demonstrated by its access to the market and issuance of GO and revenue bonds over the past 20 years. It has historically had what we consider very strong cash balances which we believe will be maintained in the near-term. Currently, all of Rockport's investments comply with Texas statutes and the city's investment policy. Rockport has no contingent liabilities that could lead to an unexpected deterioration from very strong levels.

### **Very weak debt and contingent liability profile**

In our view, Rockport's debt and contingent liability profile is very weak. Total governmental fund debt service is 15.5% of total governmental fund expenditures, and net direct debt is 268.4% of total governmental fund revenue.

Post-sale the city will have \$47 million in outstanding debt, net of what is to be supported through the city's utility system revenues. We do not anticipate a significant change in the city's debt profile in the near-term. The city has no additional near-term borrowing plans following the current issue. Given normal amortization of existing debt, our view of the city's debt profile could improve as payout becomes rapid and in excess of 65% of principal paid in 10 years. Current amortization of debt is 64.4% in the next ten years which includes energy conservation bonds and capital leases.

Rockport's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 8.3% of total governmental fund expenditures in 2019. Of that amount, 7.0% represented required contributions to pension obligations, and 1.3% represented OPEB payments. The city made 99% of its annual required pension contribution in 2019.

We do not foresee any near-term pressure on the city's finances as a result of its involvement in its pension or OPEB plans. The city participates in the following plans:

- Texas Municipal Retirement System (TMRS), funded ratio of 77.2%, and net pension liability of \$7.7 million;
- OPEB – medical care through a single-member defined benefit plan; and
- OPEB – TMRS Supplemental Death Benefit Fund, a single-employer defined benefit plan.

The city contributes to a nontraditional, joint-contributory, hybrid defined-benefit pension plan administered by the TMRS. Under state law governing the TMRS, an actuary determines the contribution rate annually. The city provides other post-employment benefits for certain employees in the form of health and supplemental death benefits. The city funds the obligations on a pay-as-you-go basis. The city's net OPEB liability is \$5.5 million.

### **Strong institutional framework**

The institutional framework score for Texas municipalities is strong.

## **Related Research**

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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