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Summary:

Rockport, Texas; General Obligation

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Summary:

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Credit Profile		
US$5.965 mil go rfdg bnds ser 2014 dtd 06/15/2014 due 02/15/2027		
Long Term Rating	AA/Stable	New
US$3.775 mil comb tax and rev certs of oblig ser 2014 dtd 06/15/2014 due 02/15/2034		
Long Term Rating	AA/Stable	New
Rockport GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Rockport, Texas' series 2014 general obligation (GO) refunding bonds and series 2014 combination tax and revenue certificates of obligation. At the same time, Standard & Poor's affirmed its 'AA' underlying rating (SPUR) on the city's GO debt. The outlook is stable.

The series 2014 bonds 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. Management will use proceeds refund some outstanding debt and to make various general repairs, extensions, additions, and improvements to the waterworks and sewer system, and gas system.

The rating reflects 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 2013 audited reserves greater than 30% of general fund expenditures;
- Strong budgetary performance, with projected 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 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, with only half of its population consisting of permanent residents. However, the economy has diversified into retailing, light manufacturing, and oil production and refining. New developments in Rockport include two motels, a couple of new restaurants, and a new housing subdivision. In the last three fiscal years, the county's unemployment rate has

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remained flat at about 6.1%, trending slightly below the state average, and as of March 2014, was at 5.1%, which is still below the estimated state average of 5.3%. The city has a projected per capita effective buying income of 115% of the U.S. and a per capita market value of approximately $143,000 for fiscal 2014. Since fiscal 2011, assessed value (AV) has increased an average of 1.6% per year. For fiscal 2014, AV increased roughly 1.4% to approximately $1.43 billion from $1.41 billion. Management anticipates AV will continue to grow modestly between 1% and 2% in the next two fiscal years. The tax base is diverse, with the 10 leading taxpayers, accounting for 4% of fiscal 2014 AV.

Strong management conditions

We view the city's management conditions as strong, with good financial practices under our Financial Management Assessment. 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 roughly 56% 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 plans to add roughly $1.5 million for fiscal 2014. This would represent approximately 81% of projected expenditures, well above the 30% level, which we consider very strong.

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 after making adjustments for one-time expenditures, a surplus in total governmental funds of slightly more than 13.5%. Property taxes and sales tax provide 49% and 23% of fiscal 2013 revenues, respectively. For fiscal 2014, we expect performance to improve with the city projecting a general fund surplus of slightly less than $1.5 million, or approximately 28% of projected expenditures. The total governmental funds operating result is also expected to remain in line with trend and end with a surplus of approximately 21.6% of expenditures. Surpluses are attributable to a property tax rate increase in fiscal 2013, and stronger-than anticipated sales tax receipts. The city has traditionally budgeted conservatively by overestimating expenditures and underestimating revenues.

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 issuance 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 23.7% of total governmental fund expenditures, and net direct debt at 305% of total governmental fund revenue. The overall net debt is 4.4% of market value. The city is scheduled to retire slightly more than 70% of its debt in 10 years and all 100% by 2034, 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 ARC for fiscal 2013 was approximately 10% of total governmental expenditures. As of fiscal Dec. 31, 2012, the plan was 83.33% funded. While the pension carrying charges are somewhat elevated, we do not view them as a credit negative at this time due to Rockport's significant budget flexibility.

Strong institutional framework

We consider the Institutional Framework score for Texas municipalities strong. See the 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, coupled with sustained operating surplus for both general and total governmental funds, we could raise the rating. Conversely, if the debt and liability profile worsens and reserve levels deteriorate, there could be downward pressure on the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 200

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 June 23, 2014)		
Rockport GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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