FitchRatings

01 JUL 2021

Fitch Rates Harris County, TX LT and ULT Bonds 'AAA'; Outlook Stable

Fitch Ratings - Austin - 01 Jul 2021: Fitch Ratings has assigned a 'AAA' rating to the following Harris County, TX obligations:

--Approximately $30 million permanent improvement refunding bonds, series 2021;

--Approximately $60 million unlimited tax road refunding bonds, series 2021;

--$307 million Harris County Flood Control District (TX) improvement refunding bonds, series 2021A.

In addition, Fitch affirms the 'AAA' on the following county obligations:

--Issuer Default Rating (IDR);

--Approximately $772 million limited tax bonds;

--Approximately $522 million unlimited tax bonds;

--Approximately $334 million Harris County Flood Control District limited tax bonds;

--Approximately $379 million Harris County Flood Control District contract tax bonds.

The Rating Outlook is Stable.

Bond proceeds will be used to refund certain outstanding general obligation bonds and commercial paper notes. The series 2021A Flood Control District improvement refunding bonds are expected to price July 21 via negotiated sale. The series 2021 permanent improvement refunding bonds and the series 2021 unlimited tax road refunding bonds are expected to price Aug. 4, also via negotiated sale.

SECURITY

The permanent improvement refunding bonds are payable from an annual property tax levy limited to $0.80 per $100 assessed valuation (AV) for operations and debt service. The unlimited tax road refunding bonds are payable from an unlimited annual property tax levy. The Harris County Flood Control District (the district) improvement refunding bonds are payable from an annual property tax levy limited to $0.30 per $100 AV for operations and debt service.

ANALYTICAL CONCLUSION

The county's 'AAA' IDR reflects its strong gap-closing capacity in the form of budget controls supplemented by ample reserve funding, a moderate long-term liability burden, and robust economic base and growth prospects. Management's prudent budgeting of its expansive resource base benefits the county's prospects for maintaining structural balance through economic cycles.

As the Harris County Flood Control District (the district) is a blended component unit of Harris County with limited operations, Fitch believes that operating risk exposure for the district's bonds is best reflected in the county's IDR.

Economic Resource Base

With a population totaling just over 4.7 million, Harris County is the largest county in Texas and the third largest in the nation, encompassing all but a small portion of the city of Houston. The county features a large, diverse economy that retains exposure to the energy sector. Expansion of the healthcare, biomedical research, aerospace, port, and petrochemical industries over the past several decades has reduced the historically strong reliance on the energy exploration sector.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

A long-term healthy pace of revenue growth is likely to continue as cyclical contraction within the energy sector is balanced against continued expansion of the county's diverse economy. The county's overall revenue-raising ability remains high relative to modest historical revenue volatility.

Expenditure Framework: 'aa'

The county's expenditure flexibility is aided by prudent budgeting, pay-go capital spending, and lack of collective bargaining agreements with any of its personnel. Fitch expects growth-related spending demands to be matched by revenue gains, keeping their trajectories in line with one another.

Long-Term Liability Burden: 'aa'

At an estimated 12% of resident personal income, the county's long-term liability burden is moderate and Fitch expects it to remain so, driven primarily by overlapping debt. Future growth-related debt and capital needs should stay aligned with likely further robust population and economic gains. The county consistently funds its pension at actuarially determined levels and the net pension liability is modest relative to the resource base.

Operating Performance: 'aaa'

The combination of the county's solid expenditure flexibility and ample revenue-raising authority, as well as its record of very large reserve funding, should enable maintenance of the highest level of financial flexibility through the economic cycle.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable given the current 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Economic contraction that negatively affects key county revenues, particularly property tax upon which the county is heavily reliant, and materially erodes the county's gap-closing capacity;

--Although unlikely, a sustained increase in the long-term liability burden near or above 20% of personal income due to substantially larger debt issuance than expected or large declines in the county's resource base.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Harris County anticipates receiving a total of $914 million in American Rescue Plan Act (ARPA) aid; roughly half ($458 million) was received in May 2021 and the remainder is anticipated in 2022. County management has begun initial discussions on the use of these funds with a broad focus on the areas of health, housing, and jobs.

The county entered the pandemic fiscally well positioned given its very strong reserve cushion. General fund operations generated a net operating surplus of $181 million or roughly 8% of spending, boosting unrestricted general fund reserves to $1.5 billion or 65% of spending at FYE 2020 (Feb. 29).

The budget for fiscal 2021 was adopted as balanced; however, county management soon had to address the evolving impact of the pandemic. Coronavirus-related expenditures were initially funded from the county's public contingency fund which totaled $248 million in fund balance at FYE 2020. Reported as part of the general fund group, the public contingency fund receives property tax revenues from a dedicated property tax levy. The county will seek FEMA reimbursement to pay for these related recovery efforts. The county received $426 million in federal CARES ACT dollars later in the fiscal year, which is to be recorded outside the general fund.

Local property taxes, which accounted for 80% of general fund revenues in fiscal 2020 were not significantly affected by the pandemic and held relatively stable while the county saw its largest revenue loss in charges for services at nearly $30 million (a 12% yoy decline). The county does not collect sales taxes. Overall stability in its primary revenue stream largely allowed county management to avoid implementing cost saving measures, such mid-year budget cuts or hiring freezes.

Projections for FYE 2021 anticipate modest use of the county's unrestricted reserves (roughly $27 million or less than 2% of spending) across the funds that comprise the total general fund group (rolled up on an audited basis). Unrestricted cash/investments across the same funds at FYE 2021 are projected to remain substantial at approximately $1.5 billion.

Total operating tax revenue for fiscal 2022 is budgeted to be up by a moderate $102 million (6.5%) from the prior year's adopted budget. The year's taxable AV grew by a sluggish 2%, not unlike past downturns, to $513 billion with a moderate decrease in industrial values offset in part by gains in residential valuations. Overall, budget assumptions remained largely flat in the county's roughly $2 billion fiscal 2022 general fund operating budget and management currently expects break-even results.

The Fitch Analytical Stress Test (FAST) scenario analysis tool relates the county's historical general fund revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria. FAST is not a forecast (actual revenue declines will vary from FAST), but it provides a relative sense of revenue risk exposure across Fitch's local government portfolio. The county's FAST revenue volatility is modest relative to Fitch's U.S. local government sector, which is indicative of the city's stable revenue structure.

CREDIT PROFILE

The Houston MSA is home to several thousand energy companies, ranging from large multi-national concerns to numerous mid-sized-to-smaller exploration, construction, engineering and service companies. The lingering effects of the oil price shock in the second quarter of 2020 to area employment may represent an additional challenge to the local economy post-pandemic. Widespread layoffs were realized in the manufacturing, construction/mining, and leisure/hospitality sectors. Nonetheless, county unemployment rates yoy have trended downward to 7.5% in April 2021 from a high 14.5%.

Fitch expects economic growth will return to its strong pre-pandemic levels at full recovery. Professional and business services are expected to be one of the MSA's leading growth sectors. The trade and transportation sector is projected to benefit from additional activity at the Port of Houston due to the fast-growing export market for U.S. oil, natural gas, and chemicals. The port is ranked first in the U.S. in foreign waterborne commerce and second in total tonnage.

Fitch's projection for West Texas Intermediate (WTI) oil per barrel is for an increase from $39 in 2020 to $55 and a return to $50 in 2021 and 2022, respectively, which primarily reflects a stronger than expected oil demand and economic recovery anticipated for 2H21. Additional details are described in the report entitled, "What Investors Want to Know: North American Energy (Oil & Gas) and Natural Resources (One Year Post Coronavirus - Recovery, End-Market Demand Improves)" published June 2, 2021 on www.fitchratings.com.

Continued in-migration and natural population growth will serve to buoy the county's housing market and taxable values over the medium term. The county experienced a nearly 16% population gain in 2010-2020, the majority of which occurred in the unincorporated areas. Fitch expects the MSA's strong population growth trend to continue. Population gains have helped stabilize the MSA's housing market, allowing median home prices to remain stable during the last energy sector downturn in 2014.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Rebecca Moses
Director
Primary Rating Analyst
+1 512 215 3739
Fitch Ratings, Inc. 2600 Via Fortuna, Suite 330 Austin, TX 78746

Omid Rahmani

Associate Director
Secondary Rating Analyst
+1 512 215 3734

Amy Laskey
Managing Director
Committee Chairperson
+1 212 908 0568

Media Contacts

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Harris County (TX) [General Government]	LT IDR	AAA	Affirmed		AAA
• Harris County (TX) /General Obligation - Limited Tax/1 LT	LT	AAA	Affirmed		AAA
• Harris County (TX) /General	LT	AAA	Affirmed		AAA

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Obligation - Unlimited Tax/ 1 LT					
• Harris County Flood Control District (TX) /General Obligation - Limited Tax/ 1 LT	LT	AAA	Affirmed		AAA
• Harris County Flood Control District (TX) /Limited Ad Valorem Tax Revenues/ 1 LT	LT	AAA	Affirmed		AAA

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙

RATINGS KEY	OUTLOOK	WATCH
EVOLVING	◎	◆
STABLE	◎	

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub.04 May 2021) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Harris County (TX)	EU Endorsed, UK Endorsed

Disclaimer

Copyright

is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Endorsement policy

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.