

Rating Action: Moody's assigns Aaa ratings to Harris County, TX and Harris County Flood Control District, TX's GO debt; outlook stable

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New York, June 29, 2021 -- Moody's Investors Service has assigned Aaa ratings to Harris County, TX's \$30 million Permanent Improvement Refunding Bonds, Series 2021, \$60 million Unlimited Tax Road Refunding Bonds, Series 2021, and Harris County Flood Control District, TX's \$312 million Improvement Refunding Bonds, Series 2021A. Post sale, the county will have \$2.1 billion in outstanding unlimited and limited tax obligations including the flood control contract tax, while the district will have \$646.3 million outstanding. The outlook is stable.

Please click on this link http://www.moody's.com/viewresearchdoc.aspx?docid=PBM_PBM907215404 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The Aaa ratings reflect a large and global economy complemented by stable demographics that continue to drive the county's expansive and growing tax base. The rating also reflects the county's history of solid operating performance and a high level of reserves that significantly outpaces peers. The county will maintain its healthy reserve position because its revenue mix is highly dependent on relatively stable property tax revenues and pandemic related costs will be offset by federal funding. The rating further considers the county's exposure to environmental considerations, which are partially offset by multi-level government funding to significant infrastructure investment to improve the area's resiliency and mitigate its impact to future storms. Finally, the rating incorporates the county's debt and pension profile that should remain affordable over the next three to five years.

The lack of distinction between the GOULT and GOLT ratings reflect the county's ample headroom under its current taxing capacity providing more than 8.8 times debt service on the county's limited tax bonds, and 2.9 times debt service on the district's limited tax bonds. The headroom offsets the limitation under existing property tax caps, and the inability of Commissioners' Court to override the statutory cap.

RATING OUTLOOK

The stable outlook reflects the county's important and expansive economy which will sustain its tax base and support property taxes, the largest source of operating revenue. This coupled with prudent fiscal practices will allow ample reserves to remain and allow debt and pension levels to remain affordable over the next five years.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Substantial reduction in reserves

- Material economic contraction signified by weakening key indicators

LEGAL SECURITY

The permanent improvement bonds are secured by and payable from a direct and continuing annual ad valorem tax levied against all taxable property within the limits prescribed by law. The county is legally allowed an \$8 per \$1,000 of assessed value tax rate for all purposes and the Attorney General's office will not permit more than \$4 to be allocated for debt.

The road bonds are secured by and payable from a direct and continuing annual ad valorem tax levied against all taxable property without legal limit as to rate or amount.

The flood control bonds are secured by a direct and continuing annual ad valorem tax levied against all taxable property within the limits prescribed by law. The flood control district can levy a total tax rate of \$3 with no limit on how much can be used for debt service.

USE OF PROCEEDS

Proceeds of the permanent improvement bonds will refund certain maturities of the county's outstanding debt for interest savings, including all or a portion of the county's outstanding General Obligation Commercial Paper Notes, Series A-1 and D-2.

Proceeds of the road bonds will refund certain maturities of the county's outstanding debt for interest savings, including all or a portion of the county's outstanding General Obligation Commercial Paper Notes, Series C.

Proceeds of the flood control district's improvement bonds will refund certain maturities of the district's outstanding debt for interest savings, including all or a portion of the district's outstanding General Obligation Commercial Paper Notes, Series H.

PROFILE

Harris County, home to the City of Houston (Aa3 stable), is the third most populous county in the nation with a total population of over 4.6 million people. The economy is largely driven by energy and resources, manufacturing and logistics, and healthcare.

Harris County Flood Control District is a conservation and reclamation district created by the Texas Legislature in 1937 to control storm and flood waters in the area. The district's taxing boundary is co-terminus with the county.

The district and county are governed by the Harris County Commissioners' Court.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260094. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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