

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aaa to Harris County, TX's various GO issues; stable outlook

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New York, June 04, 2024 -- Moody's Ratings (Moody's) has assigned Aaa ratings to Harris County, TX's Permanent Improvement Refunding Bonds, Series 2024A, Unlimited Tax Road Refunding Bonds, Series 2024A and Permanent Improvement Tax and Revenue Certificates of Obligation, Series 2024 in the amounts of about \$103 million, \$200 million and \$450 million respectively. Moody's maintains the Aaa ratings on the county's general obligation unlimited (GOULT) and limited tax (GOLT) debt which total about \$734.4 million and \$1.7 billion respectively post sale. The outlook is stable.

RATINGS RATIONALE

The Aaa issuer rating reflects a large and robust economy anchored by the City of Houston, that continues its steady post pandemic recovery with high employment, a by-product of the desirability of the area. While the pace of economic output as measured by the five year difference in real GDP is slightly below the nation at -0.4% per the Bureau of Economic Analysis, growth in the last couple years has been robust.

Ongoing tax base growth has steadily improved supporting full value per capita of over \$122,000 in fiscal 2023 although resident income remains below the nation at 95.4% per the US Census. The rating also incorporates the strength of the experienced management team that continues to sustain the county's long history of strong operating performance that has driven robust reserves; reserves were about 34.5% of revenue at fiscal year-end 2023 but is understated due to restrictions tied to certain costs. Challenges from the commercial real estate sector which is still adjusting to hybrid/work from home patterns are not a credit concern for the county because it is unlikely to reduce property tax receipts, the county's largest source of revenue given continued development and redevelopment in the area that have supported tax base growth.

The county's long-term leverage will remain moderate (just over 270% of fiscal 2023

revenue including the new sale) benefiting from revenue growth driven by ongoing development and its large tax base even as debt issuance is expected over time to support infrastructure needs. The area remains exposed to weather events creating the need for significant flood control initiatives. As such, additional investment will also be necessary to continue to improve the area's resiliency to future storms.

The absence of a distinction between the issuer and GOULT ratings reflects the unlimited tax pledge for debt service.

The absence of a distinction between the issuer and GOLT ratings reflects the ample taxing headroom under the limited cap that provides sizeable margin relative to debt service.

RATING OUTLOOK

The stable outlook reflects the county's important and expansive economy that will sustain its tax base and support property taxes, the largest source of operating revenue. This coupled with prudent fiscal practices will allow its ample reserves to remain stable and allow leverage and fixed costs to remain affordable over the next two to three years.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Uncontrolled expenditures that significantly surpass revenues pushing reserves to well below 35%

- Economic weakness such as a significant slowing of GDP relative to the nation and meaningful tax base declines which dampen property tax receipts

- Additional debt absent offsetting revenue growth which increases leverage beyond 350% of revenue

LEGAL SECURITY

The bonds are payable from a direct and continuing annual ad valorem tax, levied on all taxable property. The unlimited tax road bonds are not subject to any limitation while the limited tax bonds are subject to the limits prescribed by law. The certificates are additionally payable from a limited pledge of the surplus revenues of the county's parking facilities in an amount not to exceed \$10,000.

USE OF PROCEEDS

The permanent improvement bonds will be used to refund a portion of the county's

outstanding commercial paper notes Series D, D-2 and D-3. The road bonds are being used to refund a portion of the county's outstanding commercial paper notes Series C and C-2. The certificates will be used to fund certain public projects including criminal justice facilities and roads.

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 4.5 million people. The economy is driven by energy and resources, healthcare and life sciences, logistics and transportation and tourism. The county's total operations include governmental and business type activities. Business type activities are largely dominated by the county's toll road.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/rmc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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