

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns initial Aa1 to Harris County, TX's HOT revenue bonds**

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14 Nov 2024

New York, November 14, 2024 -- Moody's Ratings (Moody's) has assigned an initial Aa1 to Harris County, TX's Hotel Occupancy Tax Senior Lien Revenue Bonds, Series 2024 in the anticipated par amount of \$38.2 million. We maintain the county's Aaa issuer rating, which the hotel occupancy tax (HOT) bonds are notched off of. The current issuance is the only senior lien HOT debt the county has outstanding. The outlook for the county's profile is stable.

#### RATINGS RATIONALE

The Aa1 rating assigned to the HOT bonds is one notch below the county's Aaa issuer rating due to the pledged revenues being considered a narrow revenue base as well as fiscal year 2023 (ending September 30) collections providing very strong coverage of roughly 12.5 times maximum annual debt service. The county's HOT collections experienced significant volatility during the pandemic, in which pledged revenues declined by over 40% in fiscal 2021, but surged and outpaced pre pandemic levels in fiscal 2023. HOT collections have grown favorably at an average of roughly 10% annually over the past 10 years through fiscal year-end 2023 on an accrual basis, with similar growth in fiscal 2024 which is expected to flatten out in fiscal 2025.

The pledged revenues flow through the county's Hotel Occupancy Tax Revenue Fund, which was created to account for revenues primarily generated from a hotel occupancy tax and expenditures that serve the purpose of attracting visitors and promoting tourism. The fund maintains strong reserves and after expenditures, the county transfers a significant portion of revenues out of the fund to pay for other debt that carries a subordinate lien on the HOT revenues.

#### RATING OUTLOOK

The stable outlook reflects the stable outlook of the county.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Not applicable

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Significant decline in pledged revenues or significant leveraging that leads to coverage against maximum annual debt service below 4 times
- Downgrade of the issuer rating

#### LEGAL SECURITY

The bonds are payable solely from a senior lien on the pledged revenues (defined herein), including the proceeds of the County's Hotel Occupancy Tax at an effective rate of 1.85%, and any investment income earned on any monies in the Revenue Fund and the interest and sinking funds and reserves for all such bonds, but excluding the costs of collection and an amount required by law to be spent for general promotion and advertising.

#### USE OF PROCEEDS

The bonds are being issued for the purpose of establishing, acquiring, leasing, constructing, improving, enlarging, equipping, or repairing a public improvement or facility to attract visitors or tourists to the county. A portion of the proceeds of the bonds will be used to pay costs of issuance related to the bonds.

#### 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 this rating was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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