S&P Global Ratings

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Summary:

Harris County, Texas; Letter Of Credit

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Credit Profile		
US$200.0 mil toll rd sys first lien rev comm paper notes ser K due 12/31/2099		
Short Term Rating	A-1	New

Profile

Closing date:

April 22, 2022

Structure type:

Direct-pay letter of credit (LOC)

LOC provider:

PNC Bank N.A. (rating dependency*)

Issuing-and-paying agent:

U.S. Bank Trust Co. N.A.

*S&P Global Ratings' commercial paper (CP) note rating is linked to its rating on the LOC provider.

Rationale

S&P Global Ratings assigned its 'A-1' short-term rating to Harris County, Texas' toll road first-lien revenue commercial paper (CP) notes, series K.

The rating reflects our view of the credit and liquidity support PNC Bank N.A. provides in the form of an irrevocable direct-pay letter of credit (LOC). The LOC fully supports all CP note payment obligations.

Environmental, social, and governance

Our short-term ratings on these issues are linked to the liquidity provider. Environmental, social, and governance (ESG) factors that affect the rating on this supporting entity could also have an effect on the ratings on these securities. Our assessment of the creditworthiness of support providers incorporates any material ESG credit factors. In our view, exposure to ESG factors in these transactions is limited to the factors related to the support provider. (For further information on the ESG considerations relevant for bank ratings and underlying securities, refer to the U.S. and Canadian, EMEA, Asia-Pacific, and Latin American bank ESG industry report cards: [https://www.spglobal.com/ratings/en/products-benefits/products/esg-in-credit-ratings#sector-report-cards] and the article titled "Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors," published March 2, 2022, on RatingsDirect.)

Transaction Highlights

The county is authorized to issue up to $200 million of CP notes with a maximum maturity of 270 days. The aggregate amount of CP notes cannot exceed the LOC's stated amount, and the amounts due on each notes' maturity date are to be fully funded with amounts available under the LOC.

Structural Analysis

When evaluating the CP notes, we consider various risk factors.

LOC coverage

The LOC covers up to 270 days' interest accruals at a maximum 10% rate and the entire note principal amount. We think LOC coverage is sufficient to pay interest and principal, even assuming maximum interest-rate accruals. Under this structure, the county cannot issue CP notes that would exceed the amount of CP notes outstanding, together with amounts available under the LOC.

LOC termination

The transaction structure is such that the LOC could terminate before the CP program terminates. The issuing-and-paying agent, however, is required to comply with specific instructions that govern the CP program; we think this mitigates LOC termination risk.

The LOC expires April 22, 2025, unless extended or terminated beforehand, pursuant to its terms. Transaction documents, however, provide that CP notes cannot mature later than the earlier of 270 days after issuance or three business days before the LOC expires.

Upon the occurrence of an event of default under the reimbursement agreement, the LOC provider instructs the issuing-and-paying agent to cease issuing CP notes and permanently reduce the stated amount of the LOC to the principal amount of CP notes outstanding plus accrued interest. The LOC will remain in effect through the latest CP maturity date. The issuing-and-paying agent will continue to draw on the LOC on each CP note maturity date to repay the CP notes as they mature, as well as permanently reduce the LOC's stated amount by the amount of the corresponding LOC draw until the issuing-and-paying agent retires the entire program.

The LOC provider, however, could also send a final draw notice directing the issuing-and-paying agent to draw on the LOC in an amount equal to the principal amount of CP notes outstanding, plus accrued interest, and repay the notes as they mature. The LOC will terminate on the earlier of 15 days after the issuing-and-paying agent receives the final draw notice or the date on which the LOC provider honors the final draw.

LOC provider replacement

The county could replace the LOC provider. However, transaction terms prohibit the county from replacing any LOC provider unless, among other things, there are no CP notes outstanding at the time of substitution.

Rating Sensitivity

In view of the CP notes' structure, changes to the rating on the notes could result from, among other events, changes to our rating on the LOC provider, amendments to transaction terms, or defeasance of the CP note obligation by the issuer. We will maintain our rating on the CP notes as long as the LOC has not expired, been replaced, or otherwise terminated. If any of these conditions were to change, we will likely withdraw our rating on the CP notes.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022