

Economic Environment – Harris County – February 2017

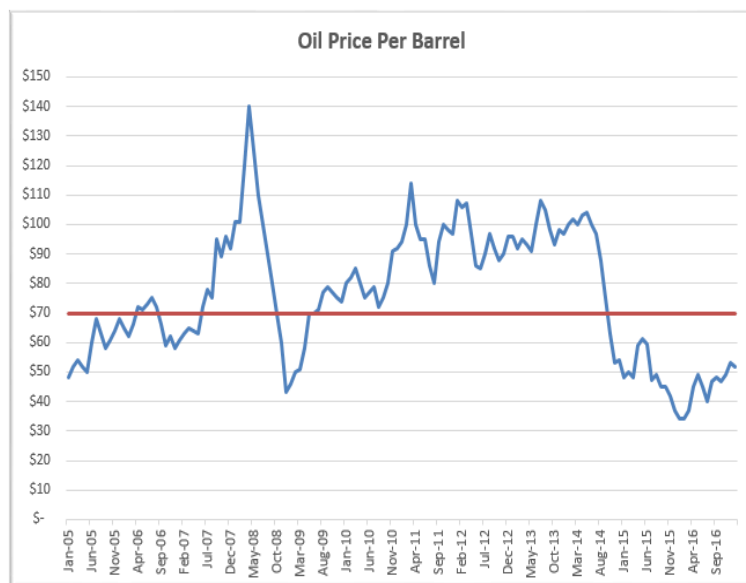
Harris County has experienced tremendous growth since the start of the 21st century with an expanding, diversified local economy that has outperformed most of the country. The energy business has played a large part in this growth along with the relatively low cost of living, affordable housing and an expanding transportation system.

While the population has been steadily increasing, the economic expansion has experienced a few slowdowns tied to oil and natural gas price fluctuations. The impact of high oil prices, above \$70 per barrel, resulted in the expansion of jobs and growth of companies in the oil and related service and manufacturing sectors. Demand for office space in Houston, unincorporated Harris County and surrounding counties has led to significant expansion in the local tax base for all of the new construction, including commercial, industrial, retail and residential property.

Oil Prices

Oil prices declined sharply in late 2008, below the \$70 per barrel threshold, but stayed down for only a few months. While this relatively temporary drop in prices didn't really slow down the population expansion, it did impact the local economic engine by slowing down the growth in construction, vehicle sales and it impacted the values of local real estate.

Starting in the last half of 2014, oil prices fell just like they did in 2008, but when they dropped below \$70 per barrel, there was not a rebound like there was six years earlier. This time, oil prices have remained below the \$70 per barrel price level for two years. It's hard to predict when oil prices will increase, but this low price could be a reality several more months.



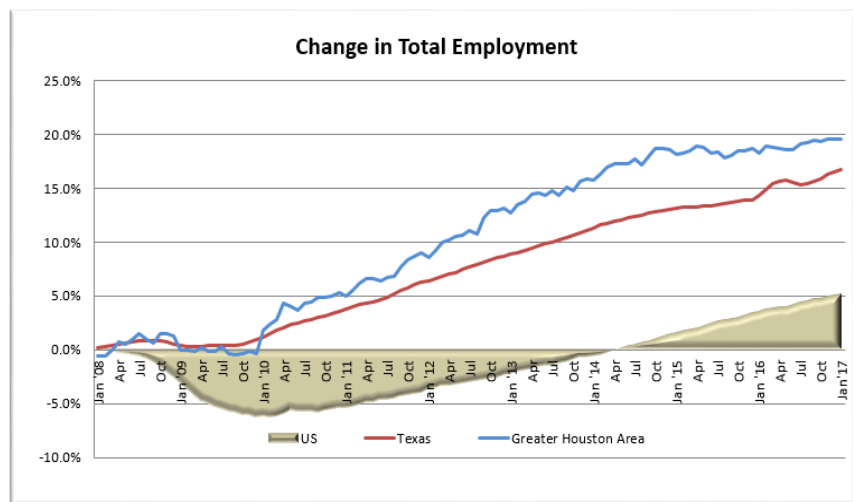
This downturn in the oil industry has resulted in job losses, a significant reduction in the rig count and reduced demand for office space, which is starting to impact commercial real estate values. Recent price increases are encouraging and the chances of reaching the higher price levels within the next several months are positive.

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Despite all of the issues related to the energy business, the local economy has remained fairly stable with job gains in healthcare, construction, retail and education offsetting part of the job losses in energy. The local unemployment rate in July was 5.8% vs. a 5.1% rate for the State of Texas and the national average. When energy is going strong, the local unemployment rate is typically a full 1% lower than the national rate.

Local Employment

The job market in the Houston metropolitan area has been fairly resilient through the oil price collapse. The chart compares the growth in jobs for the Houston area, the State of Texas and the nation since the beginning of 2008. The Houston metropolitan area has experienced nearly 20% growth in employment over this period compared to just over 17% for the State and just over 5% for the entire country. Local job growth was relatively flat during the economic downturn from 2008 through 2010 and has also been fairly flat over the last 18 months.



Construction

The local construction industry slowed down in 2016 compared to very strong growth periods in 2014 and 2015. Total building contracts in the Houston area are averaging \$1.3 billion per month for 2016, down 15% from the \$1.53 billion per month average for 2015. Within the City of Houston, building permits are down 20% for 2016 compared to 2015.

New construction of commercial, industrial, retail and residential property significantly impacts the growth in the local tax base and represents an important component of the growth in resources needed to fund infrastructure improvements to keep up with population growth. A slowdown in demand for office space not only slows down the pace of new construction, but also impacts the market value of existing property.

Home Prices

Sales of single family homes during the first seven months of 2016 were up 3% compared to last year with the median sales price increasing by 4% to \$226,000 in December compared to \$219,900 a year ago. The number of active listings is up 7% and the average time a home is on the market has remained at 4.3 months this year and last.

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Impact on Harris County

Property taxes are essential to funding the general operations and debt service of Harris County. Over the last 10 years, the taxable value of residential property in the county has increased by an average of 5.5% per year. Harris County has added over 146,000 new single family homes since 2006, which is a 16% increase. A slowdown in either the continued growth of new homes or a drop in home prices would directly impact the available resources for the county.

Commercial, industrial and other business property has grown by an average of 7% per year since 2006 and now represents 51% of the total tax levy up from 48% in 2006.

Conclusion

Low oil prices and their effect on the energy industry is a key element of the local economy and the effects of an extended downturn will likely impact the growth in county resources. The effects so far have not been significant, but the situation supports a continued cautious approach to spending that has been in place for the last several years.

Harris County, with a strong balance sheet, is well positioned financially to deal with a slowdown or reduction in property tax growth, but there would be an impact on county operations and/or the rate of borrowing to avoid increasing the property tax rate, which has not increased in nearly two decades.