

Economic Environment – Harris County – January 2019

Hurricane Harvey

Sixteen months after Hurricane Harvey made landfall near Corpus Christi, Texas and the remnants of the storm dumped over four feet of rainwater on much of Southeast Texas, the local economy has emerged showing clear signs of strength and stability. The flooding caused significant damage to about 10% of the single-family homes and apartment units in the county.

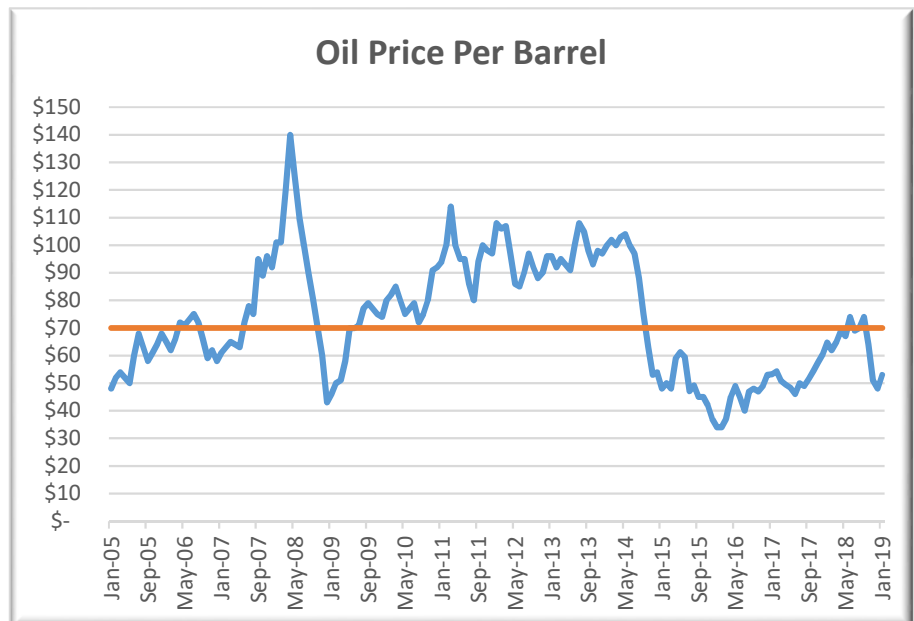
In September 2017, the impact of the flooding on the local economy was significant. Consumers stopped spending money, while construction and other business activities halted for a few weeks while damage assessments were completed and debris cleared. The businesses initially hurt by the floodwaters bounced back quickly as residents began repairing their homes.

The tremendous growth that Harris County has experienced over the last two decades returned to normal as early as October 2017. The energy business, which stalled during all of the storm activity, quickly rebounded with refinery utilization on the Texas gulf coast rising back to over 90% utilization after just a one-month drop to under 60%.

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 slow down the population expansion, it impacted the local economic engine by slowing down the growth in construction, vehicle sales and the growth in value of local real estate.

Starting in the last half of 2014, oil prices fell just like 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 three years. Prices have hovered around the \$70 threshold from May through September of 2018, but have declined back to the \$50 per barrel range during the last few months. Oil prices are likely to continue this trend of bouncing between \$40 and \$70 per barrel that has occurred consistently since the price drop in 2014. The local



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economy will continue to be impacted by this economic indicator for the foreseeable future.

National and State Economy

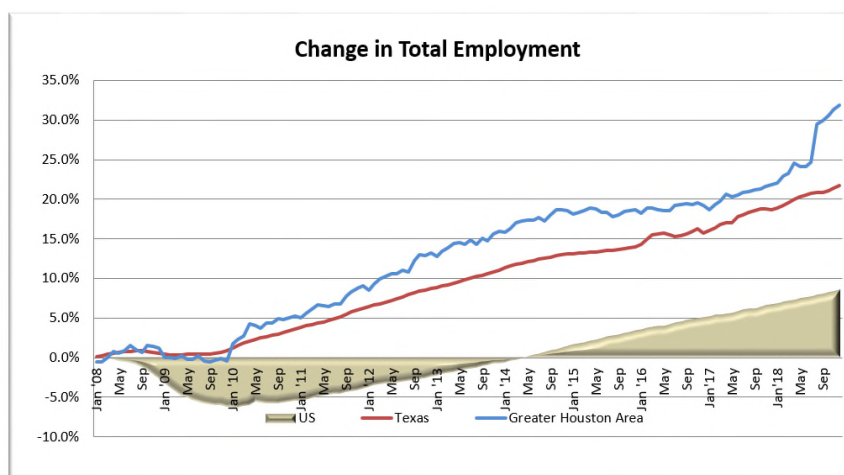
The national economy has been going strong with Gross Domestic Product reaching 4.2% in the second quarter of 2018 and 3.4% in the third quarter of 2018. The index of leading economic indicators rose .2% in November 2018, which means the index increased in 11 of the last 12 months. The leading indicators include measures of income, inflation, currency strength, manufacturing production and sales data among other indexes.

National unemployment has been less than 4% for several months in a row.

Local Employment

Over the last decade, the Greater Houston Area has experienced a nearly 32% overall growth in employment, compared to 22% for the State of Texas and 9% nationwide, since the beginning of 2008.

Unemployment rates have remained around 4% on the state and local levels for much of 2018. Traditionally, rates below 5% have been considered “full employment.” The national economy is likely to continue its fairly strong growth trend, while the state and local economies are more dependent on energy prices and exploration activities tied to oil price expectations.



Local Construction

City of Houston building permits through November 2018 were up 0.2% from \$5.569 billion last year to \$5.579 billion in 2018. Residential building permits, likely impacted by Harvey are up 21% rising from \$2.1 billion for the first 11 months of 2017 to \$2.6 billion for the same 11 months in 2018. Non-residential permits are down 13% over the same period.

Unincorporated Harris County construction permits were up 14% in 2018 from \$5.6 billion in 2017 to \$6.4 billion in 2018.

Home Prices

Sales of single-family homes in Harris County through November 2018 were up 3.8% compared to the same period last year with the median sales price up 5.6%, increasing to

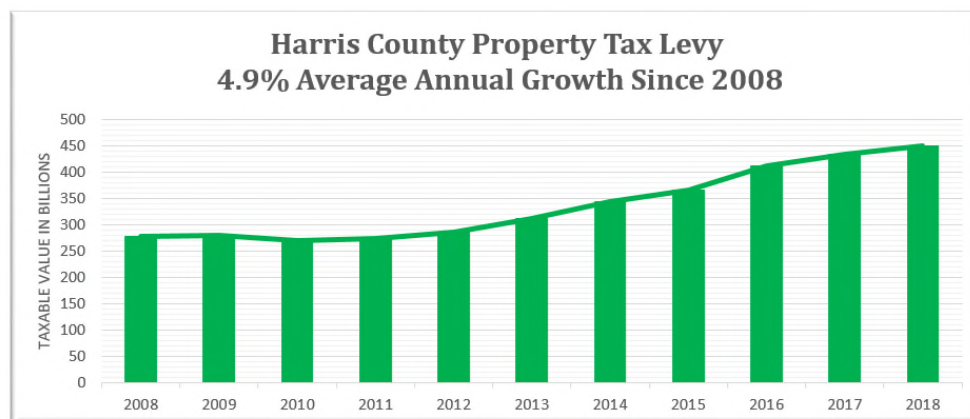
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\$240,000 compared to \$232,000 a year ago. The number of active listings is down 5% and the average time a home is on the market has increased from 4.1 to 4.9 months.

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 4.9% per year. Nearly 20% of all single family homes in the county have been added since 2006. Much of the growth in the tax levy is a direct result of new construction in the residential and commercial markets.

Commercial, industrial and other business property has grown by an average of 7% over this same time period. Business property now makes up more



than half of the taxable value of property in the county. Based on the continued trends in market values of homes rising, along with new construction of homes and apartments both within the City of Houston and in the unincorporated areas of the County, the taxable value is expected to continue to grow fairly consistently.

Impact of Potential Legislation

The Texas Legislature is in session during 2019 with a renewed emphasis on reducing local property taxes, which could impact the rate of growth in the property tax levy and/or property tax revenues for counties, cities, special districts and school districts for the upcoming fiscal year. There are proposals for spending caps that may impact operational and capital spending at the county, which operates as an arm of state government.

Conclusion

While the local industry and job market has diversified over the last few decades, the energy business remains the key industry driving local job growth, property values and other aspects of the local economy. The value of commercial and industrial property is still dependent on strong oil prices and a thriving energy business.

The continued steady growth in county revenue is dependent on a strong national and local economy. Legislative changes could impact county revenues estimated by the County Auditor's office for Fiscal Year 2019-2020 which would impact the expenditure budgets for the county.