

RATING ACTION COMMENTARY

Fitch Affirms Harris County, TX's IDR, LT and ULT Bonds at 'AAA'; Outlook Stable

Fri 09 Aug, 2024 - 12:54 PM ET

Fitch Ratings - Austin - 09 Aug 2024: Fitch Ratings has affirmed the 'AAA' on the following Harris County, TX ratings:

- The Issuer Default Rating (IDR);
- Outstanding Fitch-rated limited tax (LT) bonds;
- Outstanding Fitch-rated unlimited tax (ULT) bonds;
- Outstanding Fitch-rated toll road ULT bonds;
- Outstanding Fitch-rated Harris County Flood Control District LT bonds;
- Outstanding Fitch-rated Harris County Flood Control District contract tax bonds.

Fitch Ratings has also affirmed the 'AAA' rating on the bank notes associated with Harris County's general obligation (GO) commercial paper notes, series D-3. Effective Aug. 28, 2024, the county has entered into a liquidity agreement with Truist Securities, Inc. to provide support for the series D-3 notes.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Harris County (TX) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Harris County (TX) /General Obligation - Limited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Harris County (TX) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Harris County Flood Control District (TX) /General Obligation - Limited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Harris County Flood Control District (TX) /Limited Ad Valorem Tax Revenues/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

The 'AAA' IDR incorporates the county's financial resilience assessment of 'aaa' based on an ample level of budgetary flexibility and Fitch's expectation that available general fund reserves will equal at least 7.5% of spending. The IDR also reflects a 'strong' long-term liability burden and a population and economy of sufficient size and diversification, balanced against 'midrange' demographic and economic trend and level metrics. The model implied rating incorporates a +1 notch additional analytical factor for economic and institutional strength.

As the Harris County Flood Control District (the district) is a blended component unit of Harris County with limited operations, Fitch believes that operating risk exposure for the district's bonds is best reflected in the county's IDR.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Sustained decline in available general fund reserves below 7.5% of spending which would reduce the county's financial resilience assessment to below 'aaa';

--A sustained 50% increase in the long-term liability burden assuming current levels of personal income and governmental resources;

--Weakened underlying economic and demographic performance including but not limited to slower population growth, rising unemployment and lower resident income.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Not applicable as the IDR is at the highest level.

SECURITY

The LT bonds and bank bonds associated with the LT CP notes are payable from an annual property tax levy limited to \$0.80 per \$100 assessed valuation (AV) for operations and debt service. The ULT bonds and bank bonds associated with the ULT commercial paper notes are payable from an unlimited annual property tax levy. The Harris County Flood Control District (the district) limited tax bonds are payable from an annual property tax levy limited to \$0.30 per \$100 AV for operations and debt service.

The district's contract tax bonds are payable from payments received from the county pursuant to a flood control projects contract. The county's obligation to make the payments is backed by a pledge of its tax levy, limited to \$0.80 per \$100 AV.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model (LGRM) generates Model Implied Ratings (MIR) which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the MIR will be the IDR except in certain circumstances explained in the applicable criteria). The MIR is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

MIR reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile (MP), and a structured framework to account for Additional Analytical Factors (AAFs) not captured in the MP that can either mitigate or exacerbate credit risks. AAFs are reflected in notching from the MP and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Harris County MIR: 'AAA' (Numerical Value: 10.55)

-- MP: 'AA+' (Numerical Value: 9.55)

-- Net AAF Notching: +1.0

Individual Additional Analytical Notching Factors:

-- Economic and Institutional Strength: +1.0

Harris County's MIR is 'AAA'. The associated numerical value of 10.55 is in the middle of the range for its current 'AAA' rating.

KEY RATING DRIVERS**FINANCIAL PROFILE****Financial Resilience - 'aaa'**

Harris County's financial resilience is driven by the combination of its 'High' revenue control assessment and 'High' expenditure control assessment, culminating in an 'Ample' budgetary flexibility assessment.

-- Revenue control assessment: High

-- Expenditure control assessment: High

-- Budgetary flexibility assessment: Ample

-- Minimum fund balance for current financial resilience assessment: $\geq 7.5\%$

-- Current year fund balance to expenditure ratio: 19.2% (2023)

-- Five-year low fund balance to expenditure ratio: 19.2% (2023)

Revenue Volatility - 'Strong'

Harris County's weakest historic three-year revenue performance is neutral to the MIR.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenue dating back to 2005): 0.2% decrease, Analyst Input (vs. 0.2% decrease for the three-year period ending fiscal 2012)

-- Median issuer decline: -4.5% (2023)

DEMOGRAPHIC AND ECONOMIC STRENGTH**Population Trend - 'Midrange'**

Based on the median of 10-year annual percentage change in population, Harris County's population trend is assessed as 'Midrange'.

Population trend: 0.8% 2022 median of 10-year annual percentage change in population (45th percentile)

Unemployment, Educational Attainment and MHI Level - 'Midrange'

The overall strength of Harris County's demographic and economic level indicators (unemployment rate, educational attainment and median household income [MHI]) in 2023 are assessed as 'Midrange' on a composite basis, performing at the

43rd percentile of Fitch's local government rating portfolio. This is due to midrange education attainment levels offsetting midrange median-issuer indexed adjusted MHI and elevated unemployment rate.

-- Unemployment rate as a percentage of national rate: 119.4% 2023 (28th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 33.2% (2022) (59th percentile)

-- MHI as a percent of the portfolio median: 94.3% (2022) (41st percentile)

Economic Concentration and Population Size - 'Strongest'

Harris County's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the MP are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 4,781,337 (2022) (above the 15th percentile)

-- Economic concentration: 34.1% (2023) (above the 15th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

The additional analytical factor recognizes Harris County's economic and institutional strength given its role as the core government of an important and growing MSA that contributes to the national economy.

LONG TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Strong'

Harris County's liabilities to governmental revenue has deteriorated while carrying costs to governmental expenditures and liabilities to personal income remain moderately strong. The long-term liability composite metric in 2023 is at the 70th percentile, indicating a somewhat lower liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 1.9% Analyst Input (90th percentile) (vs. 1.7% 2023 Actual)

-- Liabilities to governmental revenue: 174.0% Analyst Input (52nd percentile) (vs. 153.7% 2023 Actual)

-- Carrying costs to governmental expenditures: 12.8% Analyst Input (65th percentile) (vs. 10.3% 2023 Actual)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

The analyst input reflects the addition of recently issued debt plus amortization of outstanding debt in fiscal 2024.

PROFILE

The Houston MSA is home to several thousand energy companies ranging from large multinational concerns to numerous midsized to smaller exploration, construction, engineering and service companies. Similar to pre-pandemic trends, professional and business services are likely to be one of the MSA's leading growth sectors. The trade and transportation sector is projected to benefit from additional activity at the Port of Houston due to the fast-growing export market for U.S. oil, natural gas and chemicals. The port is ranked first in the U.S. in foreign waterborne commerce and second in total tonnage.

Continued in-migration and natural population growth will serve to buoy the county's housing market and taxable values over the medium term. The county experienced a nearly 18% population gain in 2010-2023, the majority of which occurred in the unincorporated areas. Fitch expects the MSA's strong population growth trend to continue, aiding in the stabilization of the housing market during energy sector downturns. Per Zillow, the median home value totals \$288,134, up 1.6% over the 12-month period ending June 2024.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DRIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

ADDITIONAL DISCLOSURES

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Harris County (TX)

EU Endorsed, UK Endorsed

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