

## Harris County Flood Control District, TX

### Issuer: Harris County Flood Control District, TX

| Assigned                                   | Rating | Outlook |
|--|--------|---------|
| Improvement Refunding Bonds, Series 2025   | AAA    | Stable  |
| Contract Tax Refunding Bonds, Series 2025A | AAA    | Stable  |
| Contract Tax Obligations (Parity Debt)     | AAA    | Stable  |
| Affirmed                                   | Rating | Outlook |
| Limited Tax Obligations                    | AAA    | Stable  |

#### Methodology:

[General Property Tax/Assessment Revenue Methodology](#)

[U.S. Local Government GO Methodology](#)

[ESG Global Rating Methodology](#)

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**Rating Summary:** The long-term rating for the Harris County Flood Control District (the "District") Improvement Bonds reflects the District's large, diverse, and growing tax base; established track record of successful assessment and collection of the pledged ad valorem taxes; and, ample tax rate margin existing under statutory tax limits to meet future debt service and operating requirements.

The long-term rating for the District's Contract Tax Bonds reflects the strength of Harris County's (the "County's") pledge and the District's first lien on payments under the Flood Control Projects Contract. Further information on the County rating can be found [here](#).

Proceeds of the Series 2025 and 2025A Bonds will be used to refund outstanding bonds for present value savings. A portion of the proceeds with each series will additionally be used to pay the cost of issuance.

The District is a political subdivision of the State of Texas (State) established by a special act of the Texas Legislature in 1937 to control storm and floodwater of rivers and streams and reclaim and drain overflow lands in Harris County (County).

Limited Tax Obligations, issued by the District as

Improvement Bonds, are solely secured by an annual ad valorem tax levied on all taxable property in the District, and by no other source of taxes or revenues. Consequently, KBRA's rating assessment focuses on this payment source. State statute limits the total District Tax to a maximum of \$0.30 per \$100 of taxable assessed value (TAV). The total tax is comprised of separate components for operations and maintenance (O&M) and debt service. The Harris County Commissioners Court is responsible for levying ad valorem taxes on behalf of the District and each year determining the specific amount of taxes required for each component. Receipts from the debt service component of the levy are credited to the District's series specific debt service funds and can be used only for the payment of principal and interest.

The Contract Tax Bonds are secured solely by a first lien on payments received from the County pursuant to a flood control projects contract. Contract Tax Bonds will not be payable from revenues of the District (other than the County's payments under the Flood Control Projects Contract) or any funds raised or to be raised by taxes levied by the District. The County's obligation to make the payments is backed by a pledge of its tax levy, limited to \$0.80 per \$100 AV.

Following damage to a large number of homes and businesses in 2017 from Hurricane Harvey, the electorate in 2018 approved the issuance of up to \$2.5 billion in Bonds to fund capital projects related to reducing the impact of future flood events. The District plans to leverage this borrowing authority over 10-15 years to finance approximately 200 projects for this purpose. To date the District has issued \$1.01 billion in such Bonds with a remaining unissued authorization of \$1.49 billion. The District funds the outlay of capital investments with two commercial notes (Notes) which are periodically refunded with the herein rated Bonds. The Notes, like the Bonds, are voter-approved obligations secured by ad valorem taxes. The Series H Notes have a \$500 million capacity with liquidity support from JPMorgan Chase expiring December 10, 2027. The Series H-2 CP Notes have a \$200 million capacity with liquidity support from PNC Bank expiring May 24, 2028. No balance is currently outstanding under either facility.

The District tax base is largely in line with Harris County less a few exemptions. The County is home to a population of 4.8 million people centered around the City of Houston which is the fourth most populous city in the U.S. Per capita income is favorable at 99% of the State average in 2023 and the County population increased 17.7% between 2010 and 2023, slightly slower than the State but more than twice as quickly as the Nation. Taxable assessed value (TAV) of the District totals \$645.8 billion as of the 2024 tax year and has increased at a strong 6.6% compound annual growth rate (CAGR) over the last decade, though TAV growth did slow to 2.6% YoY in the 2024 tax year reflecting a leveling off in home values since the beginning of 2023 following a period of sharp growth in the years following the pandemic. Preliminary County TAV for the 2025 tax year is up 2.1% YoY. The County's ten largest ad valorem taxpayers are concentrated in the oil and gas industry but comprise only 4.3% of taxable assessed value, as growth in sectors including

healthcare, education, and professional services continue to gradually reduce the area’s historic concentration in and exposure to the energy sector.

KBRA views the breadth, stability, and historic growth trend of the underlying tax base, as well as the ample untapped tax margin existing under statutory limitations, as providing a very strong source of repayment for the District’s Bonds. In FY 2024, the District Tax levy totaled \$0.03105 per \$100 of TAV, well below the statutory limit of \$0.30 per \$100 of TAV, including \$0.02010 for O&M and \$0.01095 for debt service. The O&M portion of the levy is limited to \$0.15 per \$100 of TAV, or half of the \$0.30 per \$100 of TAV limit for the total District Levy. The debt service portion of the levy in contrast is limited only to the aggregate \$0.30 per \$100 of TAV limit. The County electorate in November 2024 approved a permanent increase in the O&M property tax levy for the Harris County Flood Control District that will provide an additional \$100 million each year toward activities mitigating future flood risks and protecting the property tax base. The result will be a significant increase in the total tax levy commencing in the 2024 tax year.

The Stable Outlook reflects KBRA’s expectation that the underlying economy will continue to sustain a large, stable, and diverse property tax base and that the District will maintain ample headroom to raise revenue for future debt service requirements.

### Key Credit Considerations

The ratings were assigned/affirmed because of the following key credit considerations:

#### Credit Positives

- Sizable and diversifying economy, centered around the Nation’s fourth largest city, which has benefited from above average property tax base growth.
- Historically stable property tax collections through a variety of economic cycles, which KBRA believes demonstrates the area’s economic and tax base resilience.
- The County electorate in November 2024 approved a permanent increase in the O&M property tax levy for the Harris County Flood Control District that will provide an additional \$100 million each year toward activities mitigating future flood risks and protecting the property tax base.
- Ample headroom between levied District Tax rate and the statutory maximum rate.

#### Credit Challenges

- Susceptibility to significant storm activity given its domicile on Texas’s Gulf Coast, as evidenced by Hurricane Harvey and other tropical systems, which have necessitated borrowing to bolster infrastructure resiliency.

### Rating Sensitivities

|   |   |
|---|---|
| ▪ Not applicable at AAA rating level.   | + |
| ▪ A sizable and sustained economic contraction for the County / Houston-The Woodlands-Sugarland MSA, resulting in a material reduction in the tax base. | - |

### Key Ratios

|  |           |
|--|-----------|
| Harris County Population (2023)                              | 4,835,125 |
| Population CAGR 2010 to 2023                                 |           |
| Harris County  | 1.3%      |
| Texas  | 1.5%      |
| United States  | 0.6%      |
| Per Capita Personal Income as % of State (2023)              | 99%       |
| Taxable Assessed Value Growth 2014 to 2024                   | 6.6% CAGR |
| District Direct Ad Valorem Levy Growth 2014 to 2024          | 7.5% CAGR |
| District Tax Levy Per \$100 of TAV in FY 2024                | \$0.03105 |
| Statutory Limit on District Direct Tax Levy Per \$100 of TAV | \$0.30000 |



| Rating Determinants (RD)                          |     |
|---|-----|
| 1. Legal Framework                                | AA+ |
| 2. Nature of Property Tax/Assessment Revenue Base | AAA |
| 3. Economic Base and Demographics                 | AA+ |
| 4. Revenue Analysis                               | AAA |
| 5. Debt Service Coverage and Bond Structure       | AAA |

The rating on the District's Limited Tax Obligations is based on KBRA's [General Property Tax/Assessment Revenue Bond Methodology](#) and the Rating Determinants (RDs) noted in the table above. An update to RD 4: Revenue Analysis is included below. For a detailed discussion of each RD, ESG Management, and the Bankruptcy Assessment, please see prior reports, the most [recent](#) of which is dated June 10, 2024.

The rating on the District's Contract Tax Obligations is based on KBRA's [U.S. Local Government General Obligation Rating Methodology](#) as such Obligations are secured by the County's pledge and the District's first lien on payments under the Flood Control Projects Contract . A detailed discussion of the County's limited tax credit can be found in KBRA's most recent report for the County, which can be accessed [here](#).

## RD 4 Update: Revenue Analysis

KBRA views pledged District Tax revenues as providing a strong source of repayment for the District's limited tax bonds given the diversity, growth, and limited historic volatility of the property tax base. The Property Tax Code generally requires all taxable property (except property utilized for a qualified "agricultural use" and timberland) to be appraised at 100% of market value as of January 1 of each year. The appraisal of taxable property for the District is the responsibility of the Harris County Appraisal District.

## Volatility of the Tax Base

The tax base has exhibited a trend of resilience and growth over the last decade. TAV increased at a 6.5% compound annual growth over the decade ending in 2024, well faster than the compound annual growth in the urban consumer price index at 2.8%. TAV did not contract through recent periods of oil price decline in 2015/2016 and 2020, evidencing limited exposure to this variable.

The total District Tax levy increased at a higher 7.5% compound annual growth rate over the last decade. The O&M component of the levy rate remained relatively stable with growth driven primarily by TAV growth. The County electorate in November 2024 approved a permanent increase in the O&M property tax levy for the Harris County Flood Control District that will provide an additional \$100 million each year toward activities mitigating future flood risks and protecting the property tax base and resulting in a significant tax levy increase. The debt service levy rate in contrast increased from \$0.00116 to \$0.01123 per \$100 of TAV in order to support increased borrowing and debt service needs.

Figure 2

| Harris County Flood Control District<br>Assessed Value, Tax Rate, and Collection History<br>FYE Feb 28/29 through 2022 and FYE Sep 30 thereafter |                        |                               |       |  |              |         |                         |              |         |       |
|--|------------------------|-------------------------------|-------|--|--------------|---------|-------------------------|--------------|---------|-------|
| Tax Year   | Fiscal Year Ended      | Assessed Value (\$ thousands) |       | Tax Rate (per \$100 of TAV) (in dollars) |              |         | Tax Levy                |              |         |       |
|  |                        | Taxable Assessed Value        | Δ YoY | Operation & Maintenance                  | Debt Service | Total   | Operation & Maintenance | Debt Service | Total   | Δ YoY |
| 2003   | 2004                   | 185,113,324                   |       | 0.02981                                  | 0.01193      | 0.04174 | 55,182                  | 22,084       | 77,266  |       |
| 2004   | 2005                   | 224,896,306                   | 21.5% | 0.02553                                  | 0.00765      | 0.03318 | 57,416                  | 17,205       | 74,621  | -3.4% |
| 2005   | 2006                   | 227,256,580                   | 1.0%  | 0.02733                                  | 0.00589      | 0.03322 | 62,109                  | 13,385       | 75,495  | 1.2%  |
| 2006   | 2007                   | 255,454,751                   | 12.4% | 0.02733                                  | 0.00508      | 0.03241 | 69,816                  | 12,977       | 82,793  | 9.7%  |
| 2007   | 2008                   | 294,083,126                   | 15.1% | 0.02754                                  | 0.00352      | 0.03106 | 80,990                  | 10,352       | 91,342  | 10.3% |
| 2008   | 2009                   | 279,039,453                   | -5.1% | 0.02754                                  | 0.00332      | 0.03086 | 76,847                  | 9,264        | 86,112  | -5.7% |
| 2009   | 2010                   | 266,282,438                   | -4.6% | 0.02754                                  | 0.00168      | 0.02922 | 73,334                  | 4,474        | 77,808  | -9.6% |
| 2010   | 2011                   | 271,362,300                   | 1.9%  | 0.02727                                  | 0.00196      | 0.02923 | 74,000                  | 5,319        | 79,319  | 1.9%  |
| 2011   | 2012                   | 281,890,656                   | 3.9%  | 0.02727                                  | 0.00082      | 0.02809 | 76,872                  | 2,312        | 79,183  | -0.2% |
| 2012   | 2013                   | 280,292,702                   | -0.6% | 0.02522                                  | 0.00287      | 0.02809 | 70,690                  | 8,044        | 78,734  | -0.6% |
| 2013   | 2014                   | 305,457,140                   | 9.0%  | 0.02620                                  | 0.00207      | 0.02827 | 80,030                  | 6,323        | 86,353  | 9.7%  |
| 2014   | 2015                   | 339,544,697                   | 11.2% | 0.02620                                  | 0.00116      | 0.02736 | 88,961                  | 3,939        | 92,899  | 7.6%  |
| 2015   | 2016                   | 379,561,447                   | 11.8% | 0.02620                                  | 0.00113      | 0.02733 | 99,445                  | 4,289        | 103,734 | 11.7% |
| 2016   | 2017                   | 411,244,560                   | 8.3%  | 0.02745                                  | 0.00084      | 0.02829 | 112,887                 | 3,454        | 116,341 | 12.2% |
| 2017   | 2018                   | 427,612,922                   | 4.0%  | 0.02736                                  | 0.00095      | 0.02831 | 116,995                 | 4,062        | 121,057 | 4.1%  |
| 2018   | 2019                   | 438,911,302                   | 2.6%  | 0.02738                                  | 0.00139      | 0.02877 | 120,174                 | 6,101        | 126,275 | 4.3%  |
| 2019   | 2020                   | 471,900,719                   | 7.5%  | 0.02670                                  | 0.00122      | 0.02792 | 125,997                 | 5,757        | 131,755 | 4.3%  |
| 2020   | 2021                   | 494,885,299                   | 4.9%  | 0.02649                                  | 0.00493      | 0.03142 | 131,095                 | 24,398       | 155,493 | 18.0% |
| 2021   | 2022                   | 508,849,992                   | 2.8%  | 0.02599                                  | 0.00750      | 0.03349 | 132,250                 | 38,164       | 170,414 | 9.6%  |
| 2021   | 2022 Stub <sup>1</sup> | 502,285,518                   | -1.3% | 0.02599                                  | 0.00750      | 0.03349 | 130,544                 | 37,671       | 168,215 | -1.3% |
| 2022   | 2023                   | 566,868,553                   | 12.9% | 0.02043                                  | 0.01012      | 0.03055 | 115,811                 | 57,367       | 173,178 | 3.0%  |
| 2023   | 2024                   | 629,390,690                   | 11.0% | 0.02010                                  | 0.01095      | 0.03105 | 126,508                 | 68,918       | 195,426 | 12.8% |
| 2024   | 2025                   | 645,846,197                   | 2.6%  | 0.03774                                  | 0.01123      | 0.04897 | 243,742                 | 72,529       | 316,271 | 61.8% |

Source: ACFRs through FY 2024; Harris County Tax Assessor-Collector and Harris County Auditor's Office for FY 2025

(1) Represents the 7 month period ending September 30, 2022, per the District's recent transition to a September 30 FYE. The 2022 and 2022 Stub year TAVs are based on the calendar year 2021 assessment. The modest decline for the 2022 Stub reflects challenges to assessments completed subsequent to the fiscal year ended 2/28/2022.



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