

Harris County Flood Control District, TX

Issuer: Harris County Flood Control District (TX)

Affirmed	Rating	Outlook
Improvement Bonds	AAA	Stable

Methodology:
[General Property Tax/Assessment Revenue Methodology](#)
[ESG Global Rating Methodology](#)
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Rating Summary: The long-term rating for the Harris County Flood Control District (District) Improvement Bonds (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 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).

The 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, which is comprised of separate

components for operations and maintenance (O&M) and debt service, to a maximum of \$0.30 per \$100 of taxable assessed value (TAV). 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.

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 paper 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, 2024. The Series H-2 CP Notes have a \$200 million capacity with liquidity support from PNC Bank expiring February 24, 2025. No balance is currently outstanding under either facility.

The District tax base is coterminous with Harris County and is large, diverse, and growing. 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 102% of the State average in 2022 and the County population increased 18.2% between 2010 and 2023, slightly slower than the State but more than twice as quickly as the Nation. Taxable assessed value totals \$566.9 billion and has increased at a strong 7.3% compound annual growth rate (CAGR) over the last decade. The County's ten largest ad valorem taxpayers are concentrated in the oil and gas industry but comprise just 4.1% 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 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 rating was 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.
- 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 Growth 2010 to 2023	
Harris County	18.2%
Texas	21.3%
United States	8.5%
Per Capita Income as % of State (2022)	102%
Taxable Assessed Value Growth 2014 to 2024	7.8% CAGR
District Direct Ad Valorem Levy Growth 2014 to 2024	8.8% 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

RD 1: Legal Framework

Improvement Bonds are issued under and pursuant to Chapters 1207 and 1371 of the Texas Government Code, as amended, and are authorized through a Bond Order by the Harris County Commissioners Court.

Nature and Strength of the Pledge

The Bond Orders specify that to provide for the payment of debt service on the Bonds, there shall be annually assessed and collected an ad valorem tax within the limits prescribed by law, on all taxable property within the District sufficient to pay interest on the Bonds and to create and provide a sinking fund adequate to pay principal on the Bonds. Full allowance is made to tax delinquencies and the costs of tax collection. Such taxes are irrevocably pledged, and when collected, shall be applied to the payment of debt service by deposit to the Debt Service Fund created solely for the benefit of the Bonds. Any amounts deposited by the District in the Debt Service Fund and any investment earnings on amounts on deposit in the Debt Service Fund shall be used solely to pay the principal, interest, and premium, if any, on the Bonds.

The District can levy an ad valorem tax up to a statutory maximum of \$0.30 per \$100 of AV. As of FY 2024, the District Tax was levied at \$0.03105. The District Tax is composed of components for operations and maintenance (O&M) and debt service. There is no limit to the share that may be utilized for debt service.

Lien Structure

The Bonds and Notes are both voter approved obligations secured by the District Tax and are effectively parity obligations.

Flow of Funds

The County Tax Assessor-Collector collects the District Tax, though the Property Tax Code permits the assessment and collection of District Tax by the Harris County Appraisal District (HCAD) or another taxing unit under certain conditions, such as a contract entered into by the Court and approved by the Assessor-Collector.

Property tax statements must be mailed by October 1 of each year, or as soon thereafter as practicable. Taxes become delinquent on February 1 of the following calendar year. The County Treasurer is responsible for depositing money received by the District in the depository selected by the Court on behalf of the District. Any amount on deposit in each series specific Debt Service Fund shall be maintained by the District in trust for the respective bondholders.

Debt Service Reserve Fund

The Bonds are not secured by a debt service reserve fund.

Additional Bonds Test

There is no additional bonds test.

RD 2: Nature of Property Tax Revenue Base Update

Nature of Property Tax

The pledged tax is ad valorem in nature and assessed against all taxable assessed value within Harris County. The tax is set each year by order of the Harris County Commissioners Court on behalf of the District. The tax is billed and collected by the County Tax Assessor-Collector. The pledged District Tax is limited in nature, subject to a statutory limitation of \$0.30 per \$100 of TAV, and comprised of (i) and O&M component authorized by voters to be levied at a rate of up to \$0.15 of TAV and (ii) a debt service levy. There is no limitation on the tax rate which may be set for debt service within the \$0.30 tax rate limit.

Size and Diversity of Tax Base

The tax base is large and diverse, covering 4.8 million people and an area of 1,777 square miles. It encompasses one of the largest urbanized areas in the County including the City of Houston, which is the fourth most populous City in the U.S.

Concentration of the Tax Base

The County's ten largest ad valorem taxpayers are concentrated in the oil and gas industry but comprise only 4.1% 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.

Figure 1

Harris County Flood Control District Ten Largest Property Taxpayers Per 2022 Taxable Valuation (dollars in thousands)			
Taxpayer	Type of Business	Taxable Assessed Value	% of Total District TAV
Centerpoint Energy Inc	Electric Utility	\$ 5,128,946	0.89%
Exxon Mobil Corp	Oil, Chemical Plan	4,648,561	0.80%
Chevron Chemical Company	Oil, Gas	3,582,258	0.62%
Lyondell Chemical	Chemical Plant	2,570,845	0.44%
Equistar Chemicals LP	Chemical Plant	1,963,001	0.34%
Shell Oil Co	Oil Refinery	1,246,146	0.22%
Phillips 66 Company	Pipeline	1,163,407	0.20%
Palmetto TransOceanic LLC	Real Estate, Energy	1,121,239	0.19%
Walmart	Retail	1,073,237	0.19%
HEB Grocery Co LP	Retail	1,026,928	0.18%
Total for Ten Largest		23,524,568	4.07%

Source: ACFR

RD 3: Economic Base and Demographics

KBRA views the County's municipal resource base as strong given the growing population and increasingly diverse economy.

The County's economic activity is largely centered in and around the City of Houston, which is commonly known as the "Energy Capital of the World". This concentration reflects the presence of the Port of Houston, a sprawling 50-mile-long port complex that is home to a large concentration of deep-water terminals, oil refineries, related petrochemical activity, and other industrial and shipping activity. The Houston-The Woodlands-Sugar Land MSA (Houston MSA) is also home to extensive industry specializing in the design and manufacture of oil and gas equipment as well as petrochemical and plastics engineering. These activities contribute significantly to the economic output of the MSA, but concentration in these areas has eased in recent decades as the area has grown. Nevertheless, energy remains a key industry and movement in oil and gas prices remain an important driver of both economic growth and volatility year to year. Other significant contributors to the MSA economy include Texas Medical Center and the University of Houston.

Population Trends

Harris County's population from 2010 to 2023 grew at a pace slightly slower than that of the State but more than double that of the Nation.

Figure 2

Population	Harris County	Houston MSA	Texas	United States
1980	2,438,539	3,172,859	14,338,208	227,224,719
1990	2,835,927	3,775,620	17,056,755	249,622,814
2000	3,414,239	4,717,507	20,944,499	282,162,411
2010	4,107,451	5,946,920	25,238,863	309,378,433
2020	4,734,505	7,140,749	29,234,361	331,526,933
2023	4,835,125	7,510,253	30,503,301	334,914,895
CAGR 2010 to 2023	1.3%	1.8%	1.5%	0.6%

Source: U.S. Census Bureau

Personal Income, Education Attainment, and Poverty Level

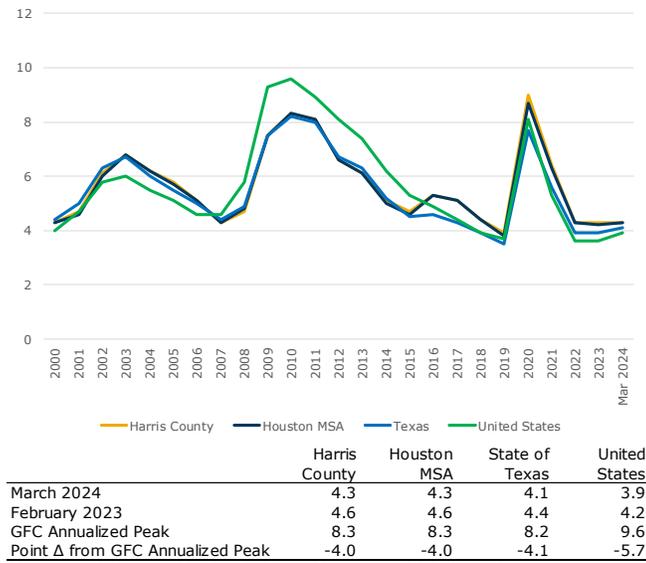
County per capita income at \$38,184 in 2022 is solid at 102% of the State average. Education attainment is also solid as of 2022 with 33.2% of persons over the age of 25 holding a bachelor's degree or higher, which is higher than the State average (32.3%) but slightly slower than the National average (34.3%). The poverty rate at 16.4% is higher than that of the State (14.0%) and Nation (11.5%) but typical of relatively urbanized areas.

Employment and Unemployment

Harris County's employment base is well diversified with a degree of concentration in professional & business services as well as trade, transportation & utilities, and construction relative to the U.S. overall. Twenty-six Fortune 500 companies are headquartered in the Houston MSA.

The County unemployment rate was 4.3% in March 2023 which was somewhat higher than that of the State (4.1%) and Nation (3.9%). Employment growth has been strong since the pandemic with total employment up 7.0% between March 2024 and the 2019 pre-pandemic level versus State growth of 9.1% and National growth of 2.4%.

Figure 3
Unemployment Rates



Source: U.S. Bureau of Labor Statistics. Not seasonally Adjusted.

Figure 4

Total Employment (Not Seasonally Adjusted) (in thousands)								
	Harris County	Δ(%)	Houston MSA	Δ(%)	State of Texas	Δ(%)	United States	Δ(%)
2000	1,653		2,283		9,933		136,891	
2001	1,670	1.0%	2,318	1.5%	10,015	0.8%	136,933	0.0%
2002	1,680	0.6%	2,346	1.2%	10,061	0.5%	136,485	-0.3%
2003	1,682	0.1%	2,364	0.8%	10,177	1.1%	137,736	0.9%
2004	1,693	0.7%	2,396	1.4%	10,336	1.6%	139,252	1.1%
2005	1,726	1.9%	2,457	2.5%	10,561	2.2%	141,730	1.8%
2006	1,780	3.1%	2,527	2.8%	10,771	2.0%	144,427	1.9%
2007	1,818	2.1%	2,589	2.5%	10,940	1.6%	146,047	1.1%
2008	1,844	1.4%	2,640	2.0%	11,110	1.6%	145,362	-0.5%
2009	1,828	-0.9%	2,625	-0.6%	11,043	-0.6%	139,877	-3.8%
2010	1,895	3.7%	2,727	3.9%	11,255	1.9%	139,064	-0.6%
2011	1,939	2.3%	2,795	2.5%	11,499	2.2%	139,869	0.6%
2012	2,010	3.7%	2,901	3.8%	11,795	2.6%	142,469	1.9%
2013	2,061	2.6%	2,983	2.8%	12,022	1.9%	143,929	1.0%
2014	2,114	2.6%	3,073	3.0%	12,333	2.6%	146,305	1.7%
2015	2,131	0.8%	3,108	1.1%	12,503	1.4%	148,834	1.7%
2016	2,131	0.0%	3,126	0.6%	12,729	1.8%	151,436	1.7%
2017	2,134	0.1%	3,142	0.5%	12,888	1.3%	153,337	1.3%
2018	2,169	1.6%	3,210	2.2%	13,179	2.3%	155,761	1.6%
2019	2,195	1.2%	3,271	1.9%	13,435	1.9%	157,538	1.1%
2020	2,070	-5.7%	3,107	-5.0%	12,872	-4.2%	147,795	-6.2%
2021	2,147	3.7%	3,220	3.7%	13,487	4.8%	152,581	3.2%
2022	2,241	4.4%	3,363	4.4%	14,094	4.5%	158,291	3.7%
2023	2,312	3.2%	3,469	3.2%	14,473	2.7%	161,037	1.7%
Mar 2024	2,349	1.6%	3,524	1.6%	14,654	1.3%	161,356	0.2%
Δ 2019 Avg to Mar 2024	7.0%		7.8%		9.1%		2.4%	

Source: U.S. Bureau of Labor Statistics. Not seasonally adjusted.

RD 4: 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 7.8% 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 8.8% 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 debt service levy rate in contrast increased from \$0.00207 to \$0.01095 per \$100 of TAV in order to support increased borrowing and debt service needs.

Figure 5

**Harris County Flood Control District
Assessed Value, Tax Rate, and Collection History
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
2002	2003	\$ 176,174,470		\$ 0.02853	\$ 0.01321	\$ 0.04174	\$ 50,263	\$ 23,273	\$ 73,429	
2003	2004	185,113,324	5.1%	0.02981	0.01193	0.04174	55,182	22,084	75,212	3.1%
2004	2005	224,896,306	21.5%	0.02553	0.00765	0.03318	57,416	17,205	64,263	-15.1%
2005	2006	227,256,580	1.0%	0.02733	0.00589	0.03322	62,109	13,385	64,981	1.1%
2006	2007	255,454,751	12.4%	0.02733	0.00508	0.03241	69,816	12,977	70,782	8.9%
2007	2008	294,083,126	15.1%	0.02754	0.00352	0.03106	80,990	10,352	72,083	1.8%
2008	2009	279,039,453	-5.1%	0.02754	0.00332	0.03086	76,847	9,264	84,057	16.6%
2009	2010	266,282,438	-4.6%	0.02754	0.00168	0.02922	73,334	4,474	80,534	-4.2%
2010	2011	271,362,300	1.9%	0.02727	0.00196	0.02923	74,000	5,319	77,374	-3.9%
2011	2012	281,890,656	3.9%	0.02727	0.00082	0.02809	76,872	2,312	75,400	-2.6%
2012	2013	280,292,702	-0.6%	0.02522	0.00287	0.02809	70,690	8,044	78,616	4.3%
2013	2014	305,457,140	9.0%	0.02620	0.00207	0.02827	80,030	6,323	86,158	9.6%
2014	2015	339,544,697	11.2%	0.02620	0.00116	0.02736	88,961	3,939	92,695	7.6%
2015	2016	379,561,447	11.8%	0.02620	0.00113	0.02733	99,445	4,289	103,462	11.6%
2016	2017	411,244,560	8.3%	0.02745	0.00084	0.02829	112,887	3,454	116,242	12.4%
2017	2018	427,612,922	4.0%	0.02736	0.00095	0.02831	116,995	4,062	120,935	4.0%
2018	2019	438,911,302	2.6%	0.02738	0.00139	0.02877	120,174	6,101	126,222	4.4%
2019	2020	471,900,719	7.5%	0.02670	0.00122	0.02792	125,997	5,757	131,680	4.3%
2020	2021	494,885,299	4.9%	0.02649	0.00493	0.03142	131,095	24,398	155,348	18.0%
2021	2022	508,849,992	2.8%	0.02599	0.00750	0.03349	132,250	38,164	170,454	9.7%
2021	2022 Stub ¹	502,285,518	-1.3%	0.02599	0.00750	0.03349	130,544	37,671	169,460	-0.6%
2022	2023	566,868,553	12.9%	0.02043	0.01012	0.03055	115,811	57,367	166,359	-1.8%
2023	2024 ²	647,595,946	14.2%	0.02010	0.01095	0.03105	130,167	70,912	201,079	20.9%

Source: ACFRs through FY 2023; Harris County Tax Assessor-Collector and Harris County Auditor's Office for FY 2024

(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.

(2) Levy for FY 2024 is estimated by KBRA based on reported taxable assessed value and approved tax rates.

Collections Trend

Current collection of assessments has been stable at about 95% in each of the last 10 years, generally climbing to exceed 99% within the two subsequent years evidencing an effective system for timely collection and managing delinquencies.

District Tax Rate Well Below Statutory Limit

The District tax levy totaled \$0.03105 per \$100 of TAV in FY 2024, well below the statutory limit of \$0.30 per \$100 of TAV. This tax rate is equivalent to just 10% of the statutory levy limit, providing ample room to increase taxes as needed to pay debt service.

RD 5: Debt Service Coverage and Bond Structure

The debt service portion of the District Tax is set each year to provide 1.0x coverage of debt service requirements. Debt service requirements escalate through FY 2027 potentially necessitating increases in the debt service levy in future years.

Figure 6

**Improvement Bond Debt Service Schedule
(FYE September 30)**



Source: Official Statement dated June 21, 2023



Bankruptcy Assessment

KBRA's bankruptcy assessment can be found in prior reports, the most recent of which is [dated](#) June 9, 2023.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found [here](#). Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

KBRA's assessment of ESG Management can be found in prior reports, the most recent of which is [dated](#) June 9, 2023.

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