

## Harris County Flood Control District, TX

Issuer: Harris County Flood Control District (TX)		
Assigned	Rating	Outlook
Improvement Refunding Bonds, Series 2023A (Sustainability Bonds)	AAA	Stable
Affirmed	Rating	Outlook
Improvement Bonds	AAA	Stable

### Methodology:

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

[ESG Global Rating Methodology](#)

### Analytical Contacts:

Michael Taylor, Senior Director  
 +1 (646) 731-3357  
[michael.taylor@kbra.com](mailto:michael.taylor@kbra.com)

Peter Scherer, Director  
 +1 (646) 731-2325  
[peter.scherer@kbra.com](mailto:peter.scherer@kbra.com)

**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 District, established by a special act of the Texas (the "State") Legislature in 1937, is a conservation and reclamation district created to control storm and floodwater of rivers and streams and reclaiming and draining overflow lands in Harris County (the "County"). The District is a political subdivision of the State (KBRA [rated](#) AAA/Stable).

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.

Proceeds from 2023A Bonds will refund and defease all or a portion of the District's outstanding Limited Tax General Obligation Commercial Paper Notes, Series H and H-2 and pay issuance costs. The Notes were issued pursuant to a 2018 Bond Election following 2017's Hurricane Harvey, and proceeds were used to finance storm resilience infrastructure projects. The District has self-designated the 2023A Bonds as "Sustainability Bonds" as the proceeds will be applied exclusively to refinance a combination of both green and social projects that promote social and environmentally sustainable purposes in alignment with the Green Bond Principles (June 2021), Social Bond Principles (June 2021) and Sustainability Bond Guidelines (June 2021) established by the International Capital Market Association and in a manner consistent with the United Nations Sustainable Development Goals.

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 2021 and the County population increased 16.8% between 2010 and 2022, slightly slower than the State but more than twice as quickly as the Nation overall. Taxable assessed value totals \$502.3 billion and has increased at a solid 5.9% 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 4.3% 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 Improvement Bonds. In FY 2022, the District Tax levy totaled \$0.03349 per \$100 of TAV, well below the statutory limit of \$0.30 per \$100 of TAV, including \$0.02599 for O&M and \$0.00750 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 as needed.



## Key Credit Considerations

The rating actions reflect 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 for this 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 (2022)	4,780,913
Population Growth 2010 to 2022	
Harris County	16.8%
Texas	19.4%
United States	7.9%
Per Capita Income as % of State (2021)	102%
Taxable Assessed Value Growth 2012 to 2022	5.9% CAGR
District Direct Ad Valorem Levy Growth 2012 to 2022	8.4% CAGR
District Tax Levy Per \$100 of TAV in FY 2022	\$0.03349
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

A more detailed review of each rating determinant and KBRA’s bankruptcy assessment can be found in the [report](#) dated August 26, 2022.

## 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.

### Property Tax Revenue Base

#### 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 4.3% 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.

Figure 1

Harris County Flood Control District Ten Largest Property Taxpayers Per 2021 Taxable Valuation (dollars in thousands)			
Taxpayer	Type of Business	Taxable Assessed Value	% of Total District TAV
Centerpoint Energy Inc	Electric Utility	\$4,700,421	0.94%
Exxon Mobil Corp	Oil, Chemical Plan	4,230,912	0.84%
Chevron Chemical Company	Oil, Gas	3,224,467	0.64%
Lyondell Chemical	Chemical Plant	2,035,602	0.41%
Equistar Chemicals LP	Chemical Plant	1,901,400	0.38%
Shell Oil Co	Oil Refinery	1,277,369	0.25%
Enterprise	Pipeline	1,244,697	0.25%
Palmetto TransOceanic LLC	Real Estate, Energy	1,112,329	0.22%
Walmart	Retail	996,726	0.20%
HEB Grovery Co LP	Retail	930,045	0.19%
Total for Ten Largest		21,653,968	4.32%

Source: ACFR

## RD 4: Revenue Analysis Update

KBRA views pledged District Tax revenues as providing a strong source of repayment for the District’s limited tax refunding bonds, as the taxes are collected across all real estate and personal properties within the County. 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 5.9% compound annual growth since 2012, well faster than the compound annual growth in the urban consumer price index at 2.5%. 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 8.4% compound annual growth rate over the last decade. The O&M component of the levy rate remained relatively stable over the period with growth driven primarily by TAV growth. The debt service levy rate in contrast increased from \$0.00082 to \$0.00750 per \$100 of TAV in order to support increased borrowing and debt service needs.

**Figure 2**

<b>Harris County Flood Control District Assessed Value, Tax Rate, and Collection History</b>									
FYE Feb 28/29, except for FY 2022 Stub, which is the 7-Month Period Ended 9/30/2022, per transition to 9/30 FYE (dollars in thousands, unless otherwise noted)									
FYE	Assessed Value		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	\$ 176,174,470		\$ 0.02853	\$ 0.01321	\$ 0.04174	\$ 50,263	\$ 23,273	\$ 73,429	
2004	185,113,324	5.1%	0.02981	0.01193	0.04174	55,182	22,084	75,721	3.1%
2005	224,896,306	21.5%	0.02553	0.00765	0.03318	57,416	17,205	64,263	-15.1%
2006	227,256,580	1.0%	0.02733	0.00589	0.03322	62,109	13,385	64,981	1.1%
2007	255,454,751	12.4%	0.02733	0.00508	0.03241	69,816	12,977	70,782	8.9%
2008	294,083,126	15.1%	0.02754	0.00352	0.03106	80,990	10,352	72,083	1.8%
2009	279,039,453	-5.1%	0.02754	0.00332	0.03086	76,847	9,264	84,057	16.6%
2010	266,282,438	-4.6%	0.02754	0.00168	0.02922	73,334	4,474	80,534	-4.2%
2011	271,362,300	1.9%	0.02727	0.00196	0.02923	74,000	5,319	77,374	-3.9%
2012	281,890,656	3.9%	0.02727	0.00082	0.02809	76,872	2,312	75,400	-2.6%
2013	280,292,702	-0.6%	0.02522	0.00287	0.02809	70,690	8,044	78,616	4.3%
2014	305,457,140	9.0%	0.02620	0.00207	0.02827	80,030	6,323	86,158	9.6%
2015	339,544,697	11.2%	0.02620	0.00116	0.02736	88,961	3,939	92,695	7.6%
2016	379,561,447	11.8%	0.02620	0.00113	0.02733	99,445	4,289	103,462	11.6%
2017	411,244,560	8.3%	0.02745	0.00084	0.02829	112,887	3,454	116,242	12.4%
2018	427,612,922	4.0%	0.02736	0.00095	0.02831	116,995	4,062	120,935	4.0%
2019	438,911,302	2.6%	0.02738	0.00139	0.02877	120,174	6,101	126,222	4.4%
2020	471,900,719	7.5%	0.02670	0.00122	0.02792	125,997	5,757	131,680	4.3%
2021	494,885,299	4.9%	0.02649	0.00493	0.03142	131,095	24,398	155,348	18.0%
2022	508,849,992	2.8%	0.02599	0.00750	0.03349	132,250	38,164	170,454	9.7%
2022 Stub <sup>1</sup>	502,285,518	-1.3%	0.02599	0.00750	0.03349	130,544	37,671	169,460	-0.6%

Source: ACFRs

(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.

**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**

District Tax levy totaled \$0.03349 per \$100 of TAV in FY 2022, well below the statutory limit of \$0.30 per \$100 of TAV. This tax rate is equivalent to just 11% 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**

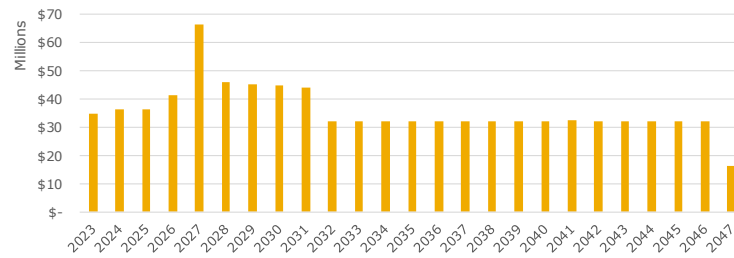
The debt service portion of the District Tax is set each year to provide 1.0x coverage of debt service requirements.

Debt service requirements escalate through FY 2027 necessitating increases in the debt service levy in future years. KBRA notes that the FY 2027 maximum annual debt service (MADS) amount of \$66.4 million is about \$28.2 million more than the FY 2022 debt service requirement, and that this \$28.2 million amount could have been raised in FY 2022 by increased the debt service levy by \$.01015 per \$100 of TAV, which would have increased the total District Tax rate to \$0.04364, a level equivalent to just 14.6% of the \$0.30 statutory limit.



**Figure 3**

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



Source: POS

## 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 the [report](#) dated August 26, 2022.

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