

CREDIT OPINION

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Harris County Flood Control District, TX

Update to credit analysis

Summary

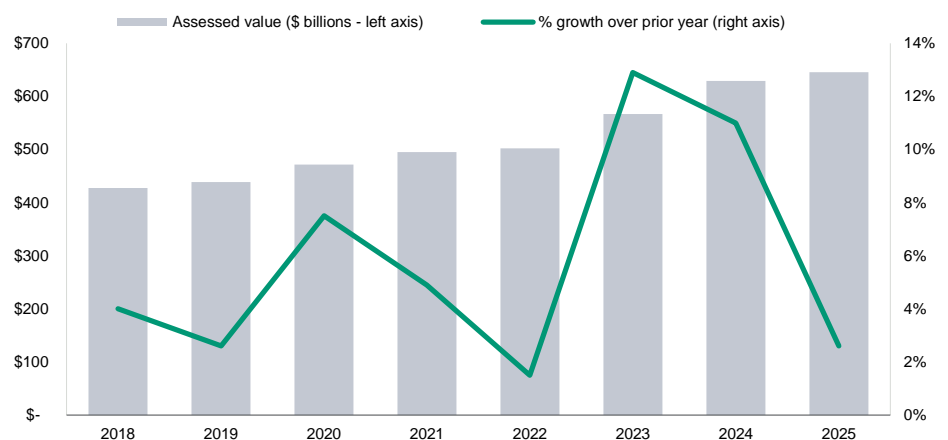
[Harris County Flood Control District, TX's](#) (Aaa stable) credit profile reflects a superior economy anchored by the City of Houston, that continues its steady post pandemic recovery with positive employment performance, driven by the desirability of the area. These attributes continue to sustain growth in the area contributing to an expansive tax base of well over \$645 billion; the district's tax base is coterminous with Harris county. Related full value per capita remains strong at about \$139,000 although income levels in the area lag the national average at just under 90%

The strength of the established management team is consistent supported by persistent and solid operating performance which has kept reserves high. Reserves are on track to remain stable at fiscal 2025 (Sept. 30 year end) with revenue surpassing expenditures by over \$150 million as of the county's April 2025 monthly financial report. This positive variance will likely fall as the district makes steady appropriations for capital in line with its plan. Even still, reserves should remain around 50% of revenue.

The district's debt levels, currently 0.2% of full value, will rise over the next five to 10 years as it takes on additional capital needs in line with its flood control mandate, a testament to the exposure the area faces to significant weather events. Still, fixed costs should remain manageable, supported by a large and established economy and revenue growth.

Exhibit 1

Assessed value is very large and continues to see expansion



Source: Harris County Appraisal District, TX

Credit strengths

- » Large and important economy driving assessed value growth
- » Experienced management team
- » History of solid operating performance despite infrastructure investment mandate which drives high capital spending

Credit challenges

- » Area is prone to weather related events because of location close to Gulf Coast
- » Sizable debt issuance expected in the next few years for flood control projects

Rating outlook

The stable outlook reflects the area's important and expansive economy which will sustain its tax base and support property taxes, the largest source of operating revenue. This coupled with prudent fiscal practices will allow its ample reserves to remain stable and allow leverage and fixed costs to remain affordable over the next five years.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Uncontrolled expenditures that significantly and continuously surpasses revenue, pushing reserves to below 35% of operating revenue
- » Material economic contraction signified by weakening in key indicators or meaningful reduction in tax base
- » Substantial additional debt without offsetting revenue growth that pushes debt levels to well over 1.5% of full value

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Key indicators

Exhibit 2

HarrisCountyFloodControlDistrictTX	2020	2021	2022	2023	2024
Economy/Tax Base					
Total Full Value (\$000)	\$471,900,719	\$494,885,299	\$502,285,518	\$566,868,553	\$629,390,690
Population	4,680,609	4,697,957	4,726,177	4,758,579	N/A
Full Value Per Capita	\$100,820	\$105,341	\$106,277	\$119,126	N/A
Median Family Income (% of US Median)	91.5%	90.7%	89.5%	89.0%	N/A
Finances					
Operating Revenue (\$000)	\$177,669	\$198,320	\$294,450	\$224,083	\$242,998
Fund Balance (\$000)	\$75,682	\$94,312	\$48,222	\$148,329	\$164,562
Cash Balance (\$000)	\$14,908	\$25,934	\$13,266	\$135,063	\$137,775
Fund Balance as a % of Revenues	42.6%	47.6%	16.4%	66.2%	67.7%
Cash Balance as a % of Revenues	8.4%	13.1%	4.5%	60.3%	56.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$634,370	\$741,005	\$1,117,245	\$1,329,148	\$1,276,187
3-Year Average of Moody's ANPL (\$000)	\$102,647	\$119,957	\$131,467	\$119,427	\$96,821
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.2%	0.2%	0.2%
Net Direct Debt / Operating Revenues (x)	3.6x	3.7x	3.8x	5.9x	5.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.6x	0.6x	0.4x	0.5x	0.4x

Source: US Census Bureau, Harris County Flood Control District, TX's financial statements and Moody's Ratings

Profile

Harris County Flood Control District is a conservation and reclamation district created by the Texas Legislature in 1937 to control storm and floodwaters in the area. The district's taxing boundary is coterminous with the county.

Harris County, home to the City of Houston (Aa3 stable), is the third most populous county in the nation with a total population of over 4.5 million people. The economy is driven by energy and resources, healthcare and life sciences, logistics and transportation and tourism. The county's total operations include governmental and business type activities which is largely dominated by the county's toll road.

Detailed credit considerations

Economy and tax base: large economy drives tax base growth, district's boundaries are coterminous with the county

Harris County's strong economic performance will remain over the next five to 10 years supported by a large and more diversified economy and strong assessed valuation growth. The resilience of the economy will continue because economic activity is anchored by the City of Houston, a critically important global economic hub that boasts economic activity centered on its main sectors including energy, healthcare and life sciences, logistics and transportation and tourism.

The district's boundaries are coterminous with the county resulting in a massive tax base that exceeds \$645 billion. Preliminary results from the appraisal district reflect values will increase by 2% in fiscal 2026 as economic growth continues unchallenged. Within the past five year alone, tax base growth averaged 6.5%

Real property accounts for almost 90% of the county's tax base with the rest from personal property. Occupancy rates in the Houston area, the largest city in the county, remained relatively unchanged through and post the pandemic significantly reducing the risk that a high concentration of workers on a hybrid/work from home schedule will disrupt property tax receipts, the county's largest revenue source.

Population of about 4.7 million will continue to increase supported by demand for the area's major sectors. Even still, access to abundant job opportunities continues to support high laborforce participation. These two factors have allowed the county's unemployment levels to strengthen, reaching 4% as of April 2025, well under the pandemic high of 9% reported in 2020 per the Bureau of Labor Statistics.

Financial operations and reserves: operating performance is steady, history of ample reserves

The district's solid financial position will remain supported by relatively stable property taxes even though its operating performance will continue to reflect steady appropriations to meet capital needs associated with its flood control mandate. As of the April 30, 2025 monthly financial report, revenue outperformed expenditures by over \$150 million. While this performance is impressive, expected costs will narrow the positive variance but year-end results will likely keep reserves relatively stable compared with the prior year.

The district closed fiscal 2024 with a \$1.6 million general fund surplus which improved the available general fund reserves to almost \$66 million (a robust 52% of general fund revenue. These figures improved to \$164.6 million, about 68% of revenue when including the debt service fund. Reserve levels will fluctuate over the next three to five years as the district embarks on flood control projects to increase its resiliency to future storms.

The Flood Control District maintains flexibility and ample capacity to access additional tax revenue with its current tax rate of \$0.49 per \$1,000 of assessed value (\$0.38 for operations and \$1.12 for debt service), well below its cap of \$3. The tax rates are set by the county's Commissioners Court.

Liquidity

The district's liquidity remains robust providing significant buffer to absorb any unforeseen challenges. As of the April 2025 monthly financial report, cash and investments exceeded \$298 million. There is no of borrowing to meet cash flow needs, consistent with the district's history over the prior decade.

Debt and pensions: affordable pensions, low debt will increase to meet flood control mandates

The district's debt profile will increase but should remain manageable supported by its expansive economy and tax base growth which will drive property tax receipts. Including the Series 2025 issuance, debt was 0.2% of full value at 0.2%, a figure that is unchanged from the fiscal 2024 year end reporting. However, this number will increase given significant expected issuance over the next several years.

The district is mandated to provide storm and flood control for the area. Following Hurricane Harvey in 2017, Harris County voters authorized \$2.5 billion in debt for flood control for the area. The district has about \$1.5 billion in authorized unissued debt which will be issued in various installments over the next 10 years. The district's flood control efforts will be augmented by other initiatives funded by other governments. Payout is somewhat slow with just under 48% of principal retired in 10 years.

Debt structure

The debt service schedule ascends slightly through fiscal 2027 before descending over through final maturity scheduled for 2048.

Debt-related derivatives

The district's outstanding debt is largely fixed rate but includes a commercial paper program (\$700 million total). Commercial paper is used for capital purposes, in anticipation of periodic long term bond issues.

External liquidity for the program is provided by two banks, both of which have short term ratings of P-1. The district has no general government swap exposure.

Pensions and OPEB

Pension and other post employment benefit (OPEB) liabilities will remain manageable for the district. Pension benefits are provided through the statewide Texas County and District Retirement System (TCDRS), a multi-employer agent plan. The district has consistently fully funded its annual required contributions at a level that is on track to reduce unfunded liabilities over time under reported assumptions. However, TCERS' discount rate of 7.6% is higher than most large US public pension systems and highlights the system's vulnerability to pension asset volatility and market performance.

Our fiscal 2024 adjusted net pension liability (ANPL) for the district totaled \$248.7 million using a 4.83% discount rate, compared with the county's reported \$176.4 million using a 7.6% discount rate. The three year average ANPL was well under 0.5 times operating revenue and 0.5% of full value.

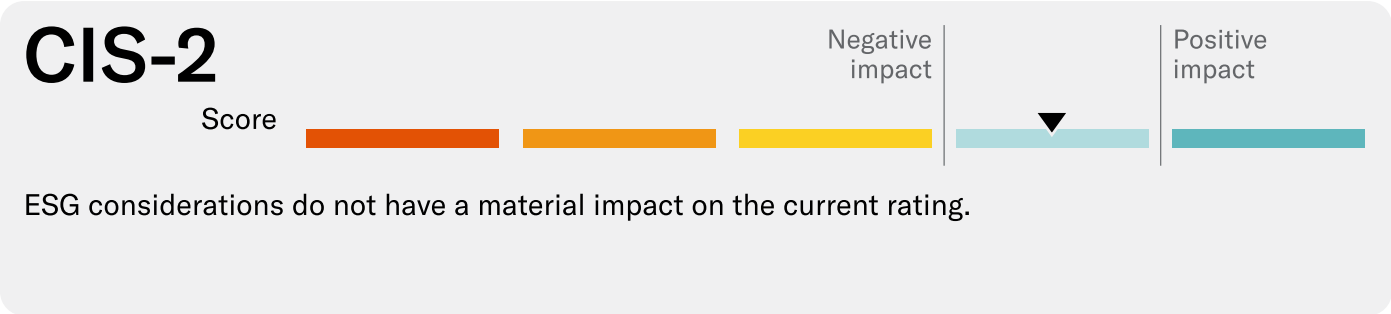
Contributions have will likely remain a manageable portion of the county's debt. Adjusted fixed costs including implied debt service, pension tread water and OPEB was moderate at under 13% of revenue in fiscal 2024.

Total fixed costs (pensions, debt and OPEB) was about \$121 million translating to almost 50% of operating revenue, with debt service accounting for well over 95% of the costs.

ESG considerations

Harris County Flood Control District, TX's ESG credit impact score is CIS-2

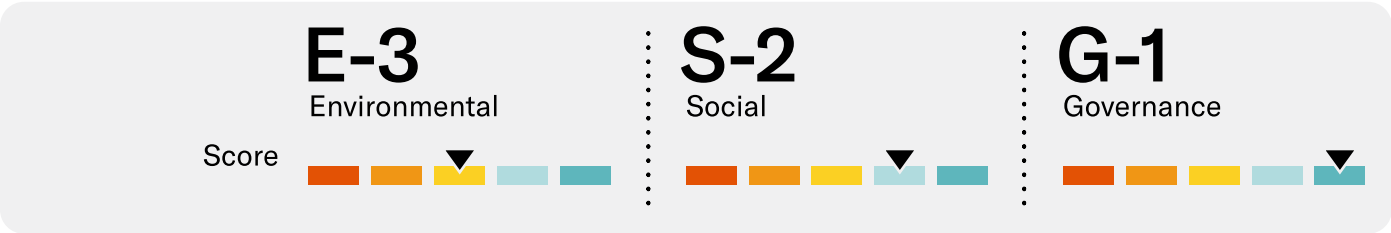
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Harris County Flood Control District's ESG Credit Impact Score of **CIS-2** indicates that ESG scores are not a drag on the credit rating. The district's exposure to some environmental risks will benefit from the county and district's extensive infrastructure development and planning. Social risks are low and the district's governance is strong. These factors as well as an exceptionally strong balance sheet and external financial and capital investment from higher levels of government to combat environmental challenges support the district's rating, resilience and capacity to respond to shocks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The district's environmental profile is the same as the county's. The county's E issuer profile score of **E-3** reflects some exposure to environmental risks particularly physical climate risks, and carbon transition, even though risks across all other categories including water management, waste and pollution and natural capital is low. The county and district have developed extensive flood control infrastructure and undergo multiyear capital planning for future infrastructure development. These practices supported by voter approved funding and policies that govern building codes and development will increase the county and district's resiliency. Absent these mitigating initiatives or if the county and district fails to continue pursuing similar initiatives, the E IPS score will weaken. Exposure to carbon transition risks is inherent in the area's role as a global energy leader. Sustained demand for green alternatives will weigh on the county and district but its effects will play out over a much longer period.

Social

The district's social profile is the same as the county's. The county's S issuer profile score of **S-2** captures strong demographic trends supported by a young populace, high net migration and availability plus affordability of housing compared to similarly sized peers across the nation. Exposure to labor and income, education, health and safety and access to basic services risks are low.

Governance

Harris County Flood Control District's strong governance profile of **G-1** reflects a strong institutional framework and beneficial policy credibility and effectiveness demonstrated by solid budget management evidenced in outcomes that are significantly favorable compared to expectations. The county and district's commitment to transparency and disclosure is also evident in monthly reporting of key financial information. The county and district also produce long range financial forecasts and capital planning that encompass population projections to guide a forward planning view for its resources. Despite being an entity that manages storm water operations, the district's limited operations are heavily dominated by capital or management of flood control projects that benefit the county and larger area. Revenues are derived from property taxes with caps prescribed by state law (the district is well below the cap) and the district does not charge rates or fees similar to other entities with business enterprises. As such, the district falls within our ESG methodology appendix for regional and local governments globally. The district is a conservation and reclamation district created by the Texas Legislature in 1937 to control storm and floodwaters in the area. The district's taxing boundary is co-terminus with the county. The district is governed by Harris County's Commissioner's Court.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Special Purpose District General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a special purpose district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare special purpose district's credits.

Exhibit 5

Harris County Flood Control District, TX

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	\$645,846,197	Aaa
Full Value Per Capita	\$135,722	Aa
Median Family Income (% of US Median)	89.0%	A
Finances (30%)		
Fund Balance as a % of Revenues	67.7%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	43.8%	Aaa
Cash Balance as a % of Revenues	56.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	40.3%	Aaa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.2x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.2%	Aaa
Net Direct Debt / Operating Revenues (x)	4.5x	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.0%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.4x	Aaa
Notching Adjustments:[2]		
Unusually Strong or Weak Security Features		Up
Credit Event/Trend Not Yet Reflected in Existing Data Sets:		
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available

[2] Notching Factors are specifically defined in the US Special Purpose District General Obligation Methodology

[3] Standardized adjustments are outlined in the US Special Purpose District Methodology Scorecard Inputs publication.

Source: US Census Bureau, Moody's Ratings

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