S&P Global
Ratings

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Summary:

Harris County, Texas; General Obligation

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Credit Profile		
US$30.28 mil tax and subord lien rev certs of oblig ser 2022 due 08/15/2033		
Long Term Rating	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Harris County, Texas' approximately $30.3 million tax and subordinate-lien revenue certificates of obligation, series 2022.
- The outlook is stable.

Security

A limited ad valorem tax, levied on all taxable property in Harris County, secures the certificates along with a subordinate lien on the county's hotel occupancy tax, which is imposed and collected by the county at a rate of 2.00% on all incorporated areas of the county or 7.00% on all unincorporated areas of the county, of which 1.85% or 6.85% respectively, has been pledged. The county intends to pay the bonds with the pledged hotel occupancy taxes, but the rating is based on the strength of the general obligation (GO) rating. The county can levy an ad valorem tax rate of up to 80 cents per $100 of assessed value (AV), with the portion dedicated to maintenance and operations limited to 40 cents. The current rate is 34.373 cents per $100 of AV, with 30.105 cents for general fund operations and 4.268 cents for debt service. We rate the county's limited-tax obligation on the bonds at the same level as the issuer credit rating, because of our view of the fungibility of the county's resources and its ability to manage those resources, supporting our view of Harris County's overall ability and willingness to pay.

Credit overview

Given the strength of the local economy bolstered by the city of Houston, we expect redevelopment and new construction will continue although expected recessionary pressures could dampen the pace of growth. For further information regarding S&P Global Economics' view on economic conditions, see "Economic Outlook U.S. Q4 2022: Teeter Totter," published Sept. 26, 2022, on RatingsDirect. In addition, Harris County is maintaining very strong available reserves, but these reserves are being used as the county transitions to a different fiscal year-end to align with property tax collections. We affirmed the rating because we believe any use of reserves during this transition to a new fiscal year is based on timing of revenues and is not an indication of structural imbalance. We also recognize that the county has very strong liquidity represented by $4 billion available in total governmental funds. Although the county will issue more debt, tax base growth should mitigate the negative effect on the debt profile.

The rating further reflects our view of Harris County's:

- Access to the broad and diverse Houston metropolitan statistical area (MSA) economy;
- Standard management, with some formal policies and a strong institutional framework score;

- Strong available general fund balance represented in 50% of general fund expenditures; and
- High 6.5% overall net debt, with above-average amortization.

For more information regarding Harris County, see our analysis, published Nov. 16, 2022.

Environmental, social, and governance

We believe Harris County has elevated environmental risk due to its location near the Gulf Coast that makes it susceptible to significant weather events, most significantly Hurricane Harvey in September 2017. In addition, the large oil and gas presence exposes the area to transition risk, which considers costs related to new regulations or the shift in employment that can occur depending on oil prices. However, the county's management team is adept at handling these environmental risks as evidenced by stable financial performance through economic and weather cycles. In our view, Harris County's governance and social factors are neutral in our credit analysis.

Outlook

The stable outlook reflects our opinion of the strong local economy, sizable reserves, and a debt profile that is made manageable by a growing tax base.

Downside scenario

We could consider a negative rating action if budgetary performance deteriorates significantly, resulting in a reduction of available fund balance to levels that are no longer comparable with those of peers. A material weakening of key economic indicators could also pressure the rating.

Ratings above the sovereign

Harris County's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. (See "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013.) Under our criteria, U.S. local governments are considered moderately sensitive to country risk. The county's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the county. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Harris County has considerable financial flexibility, as demonstrated by the very high fund general balance as a percent of expenditures as well as by very strong liquidity.

Harris County, Texas--Key Credit Metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	88.3			
Market value per capita ($)		107,129		
Population			4,798,048	4,787,379
County unemployment rate(%)			6.5	

Harris County, Texas--Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Market value ($000)		514,012,192	504,850,540	482,200,998
Ten largest taxpayers % of taxable value	3.9			
Weak budgetary performance				
Operating fund result % of expenditures		(1.7)	17.9	7.8
Total governmental fund result % of expenditures		(6.2)	0.7	5.8
Very strong budgetary flexibility				
Available reserves % of operating expenditures		50.8	58.1	65.0
Total available reserves ($000)		1,354,037	1,407,072	1,504,457
Very strong liquidity				
Total government cash % of governmental fund expenditures		104.9	104.2	135.9
Total government cash % of governmental fund debt service		1587.4	1205.6	1182.2
Adequate management				
Financial Management Assessment	Standard			
Adequate debt and long-term liabilities				
Debt service % of governmental fund expenditures		6.6	8.6	11.5
Net direct debt % of governmental fund revenue	94.8			
Overall net debt % of market value	6.6			
Direct debt 10-year amortization (%)	57.5			
Required pension contribution % of governmental fund expenditures		4.8		
OPEB actual contribution % of governmental fund expenditures		1.7		
Strong institutional framework				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments