

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's assigns Aa1 to Fort Bend County, TX's Series 2018 Unlimited Tax Road and Refunding Bonds; Stable Outlook**

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**Global Credit Research - 08 Jan 2018**

New York, January 08, 2018 – Moody's Investors Service has assigned a Aa1 rating to Fort Bend County, TX's \$59.15 million Unlimited Tax Road and Refunding Bonds, Series 2018. At the same time, Moody's has affirmed the previously assigned Aa1 general obligation unlimited tax rating (GOULT), and Aa1 general obligation limited tax (GOLT) rating. A stable outlook has been assigned to the ratings.

#### **RATINGS RATIONALE**

The Aa1 ratings reflect the county's large, diverse, and rapidly growing tax base, located within the economically vibrant Houston metropolitan area. While debt and pension liabilities are manageable, the rating also incorporates fund balances and liquidity that are below median for the rating category.

The lack of distinction between the Aa1 general obligation unlimited and limited tax ratings is based on the substantial flexibility the county has under the \$8.00 per \$1,000 rate limitation for its outstanding limited tax debt.

#### **RATING OUTLOOK**

The stable outlook reflects Moody's expectation that the county's strong economic metrics and growth trend will continue to support the ratings for the foreseeable future, but that infrastructure needs and other growth pressures will limit any meaningful improvement in the county's relatively weak financial position. The stable outlook also assumes that any costs related to repairing damage caused by Hurricane Harvey will not have a material impact on the county's financial profile.

#### **FACTORS THAT COULD LEAD TO AN UPGRADE**

- Significant and sustained improvement in fund balance and liquidity
- Continued tax base growth without additional debt

#### **FACTORS THAT COULD LEAD TO A DOWNGRADE**

- Sustained deficits that erode reserves/liquidity
- Large increases in the debt burden

#### **LEGAL SECURITY**

The bonds are direct obligations of the county, payable from the levy of an ad valorem tax levied without legal limitation as to rate or amount. Texas law allows counties to levy an unlimited tax to support debt issued for road purposes subject to voter approval.

#### **USE OF PROCEEDS (FOR NEW ISSUES)**

Bond proceeds will be used to construct various road improvements throughout the county and to refund \$5.43 million of previously issued unlimited tax road bond debt in order to achieve savings on debt service.

#### **PROFILE**

Fort Bend County is located in the southeastern portion of Texas, within the Houston metropolitan area. The rapidly developing county encompasses roughly 886 square miles and has a population of 658,331 as of 2015.

#### **METHODOLOGY**

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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# FitchRatings

## Fitch Rates Fort Bend Co., TX \$59.2MM ULT Bonds 'AA+'; Outlook Stable

Fitch Ratings-Austin-04 January 2018: Fitch Ratings has assigned a 'AA+' rating to Fort Bend County, Texas' \$59.15 million unlimited tax (ULT) road and refunding bonds, series 2018.

The bonds will be sold via negotiation the week of Jan. 22. Proceeds will finance certain roadway improvements and refund a portion of the county's outstanding ULT debt for interest savings.

Fitch also affirms the following Fort Bend County ratings at 'AA+':

- Long-Term Issuer Default Rating;
- \$265.7 million limited tax bonds and certificates of obligation (COs);
- \$305 million ULT bonds (prior to the refunding);
- \$155.1 million contract tax and subordinate lien toll revenue bonds (issued by the Fort Bend Grand Parkway Toll Road Authority).

The Rating Outlook is Stable.

### SECURITY

The series 2018 bonds and outstanding ULT bonds are payable from an unlimited ad valorem tax levied against all taxable property in the county. The outstanding limited tax bonds and COs are payable from an ad valorem tax levied within the limits prescribed by law, and the COs are additionally backed by a pledge of surplus net revenues of the county's parks system (not to exceed \$1,000). The limited contract tax and subordinate lien toll revenue bonds are backed by payments from the county pursuant to a joint project agreement and a subordinate lien on toll revenues.

### ANALYTICAL CONCLUSION

The 'AA+' rating reflects the county's prudent management practices and ample revenue and expenditure flexibility, which should allow it to maintain healthy reserve levels throughout economic cycles. Despite growth pressures and associated mobility-related and general capital needs, the long-term liability burden should remain manageable. Annual carrying costs (debt service and retiree benefit contributions) are moderate as a percentage of governmental spending.

### Economic Resource Base

The county, located southwest of the city of Houston, is a rapidly growing part of the MSA. Sugar Land (GOs AAA/Stable) is the largest city. Major employment sectors include engineering, oil services and exploration, education, manufacturing, and healthcare. Large residential developments in the unincorporated areas of the county and commercial projects throughout the county continue to fuel steady tax base gains. Easy access to Houston's employment base and the county's own growing economy have helped mitigate the impact of recent energy sector contraction. Much of the county's population gains have occurred within large master-planned communities. Wealth levels are above average.

The Houston metropolitan area, including Fort Bend County, experienced widespread, massive flooding during Hurricane Harvey in late August 2017. After making landfall just north of Corpus Christi on Aug. 25, the storm proceeded slowly over south-central and southeast Texas for the next five days before making a second landfall on Aug. 30 near Port Arthur, Texas. During this time the storm dumped more than 50 inches of rain in the greater Houston area.

Fort Bend County officials reported nearly 7,000 homes experienced flood damage throughout the county. Given the county's estimated 2016 population of roughly 740,000, the affected homes represent a relatively small percentage of countywide housing stock. The county requested a post-storm appraisal of damaged properties, but expects an impact to fiscal 2018 property tax revenues of only about \$1.4 million due to the number of properties affected and the pro-rata methodology applied to damaged properties' appraised values. Officials also reported some damage to county facilities, but expect the application of FEMA assistance and insurance proceeds to minimize out-of-pocket expenses. They cite county roads as the infrastructure category most at risk for additional storm damage, but studies that may reveal sub-surface degradation have not yet been performed.

### KEY RATING DRIVERS

#### Revenue Framework: 'aaa'

Property tax revenues are the largest operating revenue source and are likely to continue a favorable trajectory due to ongoing expansion of the residential and commercial sectors. Ample property tax rate margin remains under the county's \$0.80

constitutional limit for operations and debt service.

#### Expenditure Framework: 'aa'

The county's solid expenditure flexibility is derived from management's prudent budgeting practices, absence of labor contracts, and moderate carrying costs. These factors help offset spending pressure to provide basic services, typically provided by cities, to unincorporated areas of the county where most population gains are taking place.

#### Long-Term Liability Burden: 'aa'

Debt-financed capital needs, fueled by rapid population growth, may cause an increase in the liability burden but Fitch expects it will remain manageable. The county's unfunded pension liability is low.

#### Operating Performance: 'aaa'

The combination of the county's expenditure flexibility, revenue-raising authority, and solid reserve levels leaves it well positioned to address challenges posed by periodic economic downturns. The county has consistently demonstrated a commitment to prudent fiscal management practices.

#### RATING SENSITIVITIES

Erosion of Financial Position: A delayed or ineffective response to weakening economic conditions and resulting deterioration of financial flexibility would weaken the county's credit profile and could apply downward rating pressure.

#### CREDIT PROFILE

The diversity of the county's economy has enabled it to readily absorb the contraction of the energy sector that began in fall 2014. Schlumberger Technology Corp. and other firms involved in servicing the oil & gas sector have periodically announced layoffs and the unemployment rate has increased modestly, but trends in homebuilding, in-migration, and non-energy sector employment remain positive. The county has posted solid taxable assessed valuation (TAV) gains in each of the last five fiscal years, including a nearly 8% increase in fiscal 2018 to \$62.8 billion. Recent and planned mobility improvement projects are facilitating faster access to the larger Houston MSA and within the county's own boundaries, which should encourage additional population and economic growth.

#### Revenue Framework

The county relies on property taxes for the bulk of its operating revenues; tax receipts made up nearly 75% of the \$281.6 million fiscal 2016 general fund revenues. Other material general fund revenue sources are fines and fees (13% of the fiscal 2016 total) and intergovernmental revenues (9.7%).

Steady and healthy tax base gains (except for a single modest recessionary TAV loss in fiscal 2012) have contributed to the county's average general fund revenue gains of more than 7% annually over the past 10 years, well above U.S. GDP and CPI growth averages over the same period. Fitch expects revenue growth to continue at a healthy pace, as local and regional economic diversification and expansion offset any drag from energy sector stagnation.

Taxing margin below the \$0.80 per \$100 AV cap for O&M and debt service is ample given the fiscal 2018 rate of \$0.469 per \$100 of TAV. This margin provides significant legal maneuverability to management in terms of tax revenue-raising ability.

#### Expenditure Framework

Fort Bend County's spending patterns reflect the constitutionally specified areas of responsibility for Texas counties. Of the \$267.4 million in fiscal 2016 general fund outlays, justice administration was the largest category (25% of the total), followed by general administration and public safety (each at 20%). Capital outlays from the general fund have been trending upward in recent years, primarily due to roadway right-of-way acquisitions; capital spending totaled \$25.2 million or roughly 9% of fiscal 2016 spending.

The pace of spending is likely to remain generally in line with a strong projected pace of revenue gains as continued population increases drive additional service demands.

The county's constitutional obligation to provide certain services (e.g. criminal justice and public safety, health and human services) generates something of a constraint on expenditure flexibility, but the absence of employee bargaining units gives management notable control over headcount. Also, moderate carrying costs (debt service and retiree benefit contributions) of 14% of fiscal 2016 governmental spending provide additional spending flexibility.

#### Long-Term Liability Burden

The fiscal 2016 combined burden of overall debt and net pension liability, at 17% of total personal income, is currently a moderate burden on resources. The county issues tax-supported debt primarily for mobility projects and facility improvements. The county's direct debt constitutes less than 10% of its total debt burden, with steadily increasing overlapping debt (issued primarily by area

school districts and special districts) comprising the vast majority of the \$7.3 billion total debt load. County capital borrowings will continue to focus on mobility projects, driven by continued local and area population growth. The pace of direct debt amortization is about average at 45% retired in 10 years.

Pensions are provided through the Texas County and District Retirement System, a multiple employer agent-defined benefit plan. The estimated net pension liability (adjusted for a 6% investment return assumption) totals less than 1% of personal income. Given continued population and economic expansion, Fitch expects the county's debt burden to remain elevated but affordable despite the capital pressures of a rapidly growing area.

#### **Operating Performance**

The county's exceptional financial resilience is a function of its superior budget flexibility, in the form of notable legal control over tax revenues and expenditure control; its healthy operating reserves are another positive consideration in this assessment. The county has maintained unrestricted general fund reserves at sound levels (17% of spending at fiscal 2016 year-end) despite the recent energy sector downturn and its effect on several major county employers. This stability indicates the county is well positioned to weather typical economic cycles with little or no loss of financial strength.

The county's sound budget management practices are reflected in the consistently positive operating results and ability to adjust to changing economic and financial conditions. An example of this flexibility is the recent increase in annual general fund capital outlays to pay for unanticipated roadway project right-of-way costs, without weakening year-end results. This funding decision, along with a generally conservative budgetary approach, suggests the county would experience little or no deferral of required spending during a recession, and prompt restoration of any use of reserves during times of economic recovery.

According to management, projected fiscal 2017 general fund results will include a roughly \$10 million surplus after transfers and comparable addition to fund balance. The positive results reportedly are due to both revenues and expenses outperforming budget. Management also reports no amendments or adjustments to date to the previously adopted fiscal 2018 budget as a result of Hurricane Harvey.

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#### **Applicable Criteria**

U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017) (<https://www.fitchratings.com/site/re/898466>)

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