Summary:  
Harris County Department of Education Public Facility Corp., Texas  
Harris County Board of Education; Appropriations  

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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' Standard & Poor's underlying rating (SPUR), with a stable outlook, on Harris County Department of Education Public Facility Corp., Texas' lease-revenue debt, supported by Harris County Board of Education.

The SPUR reflects the lease agreement with Harris County Department of Education, the lease's annual appropriation risk, and the following credit factors:

- The department's very large and diverse property tax base, and
- The tax rate flexibility.

The recent decline in the department's financial position and the annual nature of the contracts that account for much of the department's revenues are mitigating factors.

As security for the lease payments backing these bonds, the department has pledged:

- Revenues generated by annual contracts with three independent school districts in the county,
- Any unintended surplus tax funds at the end of each year after the payment of all operating and maintenance expenses for that year, and
- Any other lawfully available department funds.

The department is, in essence, coterminous with Harris County, which contains Houston, Texas. The department provides adult-, special-, and continuing-education services to educators and students of the county's 26 school districts. The department can levy up to one cent per $100 of assessed value on all property within the county. The
department recently levied just 0.629 cents, providing it with the flexibility to increase property tax revenues.

Property tax base growth has been steady; the tax base has increased by an average of 6% annually since fiscal 2002 to $254 billion in fiscal 2008. The 10 leading taxpayers are diverse and account for less than 7% of total assessed value. Market value, a measure of wealth, is a below-average $55,874 per capita. Median household effective buying income is an average 105% of national levels.

The department's financial position is adequate. Fiscal year-end 2006 results indicated a $5.6 million unreserved general fund balance, or an average 17% of expenditures, with a $2.2 million operating surplus. The total fiscal 2006 fund balance was $11.8 million, or an above-average 35.4% of general fund expenditures. Operating grants accounted for 70% of 2006 general fund revenues while property taxes provided 17%. Interlocal contracts are subject to annual renewal and appropriation, resulting in a degree of financial uncertainty.

Standard & Poor’s deems Harris County Department of Education Public Facility Corp.'s financial management practices "strong" under its Financial Management Assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable. Management continuously reviews revenues and expenditures throughout the budget year and provides the board of commissioners with a monthly budget report. Management performs financial projections for the general fund for the current fiscal year and five years forward and updates them annually. It also maintains a five-year capital improvement plan. The department has its own investment policy, and management makes monthly investment reports to the school board. The department maintains a set of debt management principles and a general fund policy of maintaining between 12% and 15% of expenditures in reserves.

The department's overall net debt burden is a high 6.3% of market value and $4,263 per capita. Management, however, attributes the vast majority of this debt to Harris County, Houston, and the 26 underlying school districts. Debt service carrying charges were a below-average 2.1% of expenditures in fiscal 2006. Amortization is average with 50% of principal being retired over 10 years. Officials do not plan to issue additional debt. The district has neither any variable-rate bonds nor does it engage in any swap transactions.

**Outlook**

The stable outlook reflects the department's flexibility to tax Harris County's very large and diverse property tax base, which should ensure it will maintain an adequate financial position despite potential contract revenue fluctuations. In addition, the department's diverse services and the large number of school districts it contracts with are stabilizing factors.

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