MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to Harris Co. Dept. of Ed., TX's Series 2020 Maintenance Tax Notes; Aa1 to lease revenue bonds; stable outlook assigned

05 Oct 2020

New York, October 05, 2020 -- Moody's Investors Service has assigned a Aaa rating to Harris County Department of Education, TX's $13.7 million Maintenance Tax Notes, Series 2020. We have also assigned a Aa1 rating to the Harris County Department of Education Public Facilities Corporation's $27.7 million Lease Revenue Bonds, Series 2020. Moody's has affirmed the outstanding Aaa issuer rating (general obligation unlimited tax equivalent). Moody's has also affirmed the outstanding Aaa limited tax rating affecting $1.3 million of outstanding debt. A stable outlook has been assigned.

RATINGS RATIONALE

The Aaa issuer rating is based on the district's large, diverse, and growing tax base that is coterminous with Harris County and centered on the City of Houston. The district's financial position is very strong and will remain so despite anticipated cash funded capital outlay. The district's debt burden is minimal with no plans to issue additional debt and the pension liability is low. The ongoing coronavirus pandemic has not had a material impact on the department's financial performance.

The Aaa limited tax rating (GOLT) is the same as the general obligation unlimited tax (GOULT) equivalent issuer rating, reflecting the ample headroom under the maintenance and operations (M&O) tax rate to pay debt service on the notes, which offsets the M&O tax rate cap, lack of full faith and credit pledge, and restricted ability to increase the levy under the cap. Based on the maximum M&O tax rate of $0.10 per $1,000, the maximum maintenance property tax levy is 19.9 times greater than maximum annual debt service on the notes. Based on the present M&O tax rate of $0.04993 per $1,000, the total tax levy is 9.9 times maximum annual debt service.

The one notch differential between the GOULT equivalent issuer rating and the lease revenue rating of Aa1 reflects the annual risk of non-appropriation of lease payments as well as the essentiality of the leased assets - multiple new educational facilities required to serve its growing population.

RATING OUTLOOK

The stable outlook reflects our view that the district will continue to leverage its very large tax base to maintain a strong financial position and the debt burden will remain low.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

- Sustained declines in available fund balance/liquidity relative to revenues

- Significant economic contraction in the Houston area that impacted valuation or tax collections

- Non-appropriation of lease payments

- Reduced headroom under applicable tax cap (GOLT rating)

LEGAL SECURITY

The notes are direct obligations of the department payable from the annual ad valorem taxes levied for operational purposes, within the limits proscribed by law, on all taxable property within the district.

The bonds are issued by the Harris County Department of Education Public Facilities Corporation and are payable from annual lease payments made by the department, subject to annual appropriation. The bonds feature a security interest in the improvements to be financed, which are a variety of educational facilities integral to the department's operations.

USE OF PROCEEDS

Bond and note proceeds will be used to finance new educational facilities and make improvements at existing facilities.

PROFILE

The Harris County Department of Education provides special school services, adult education, and other educational needs to K-12 school districts and charter schools within Harris County.

METHODOLOGY

The principal methodology used in the general obligaition ratings was US Local Government General Obligation Debt published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443 . The principal methodology used in the lease rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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