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Summary:

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

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Credit Profile

Harris Cnty Dept of Ed Pub Fac Corp, Texas

Harris Cnty Dept of Ed, Texas

Harris Cnty Dept of Ed Pub Fac Corp (Harris Cnty Dept of Ed) ser 2006

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

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

The SPUR reflects the lease agreement with the 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
- Property tax rate flexibility.

The rating is constrained by the annual nature of the contracts that account for much of the department's revenue.

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 has an estimated population of 4.3 million and Houston as the main city. 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 (AV) on all property within the county. For fiscal 2014, the department levied just 0.64 cent, providing it with the flexibility to increase property tax revenues if necessary.

The department's large property tax base has experienced steady growth. Since fiscal 2011, AV increased by 16% to

\$315.9 billion in fiscal 2014. The tax base is diverse, with the 10 leading property taxpayers accounting for 5% of fiscal 2014 AV. Market value, a measure of wealth, is a strong \$74,277 per capita. Median household effective buying income is a good 103% of the national level.

The department's financial position remains very strong. Reserves have been in excess of 20% of operations for the past six fiscal years. The department ended fiscal 2013 with a surplus of about \$2.9 million, which increased its available general fund balance to \$23.1 million, or a very strong 58% of general fund expenditures. Management attributed the surplus primarily to higher-than-budgeted customer fees and property tax revenues. Based on year-to-date results, management expects the available general fund balance for fiscal 2014 to decline by about \$1.6 million to \$21.5 million following a drawdown for one-time capital expenditures. Customer fees and charges, including interlocal contracts, accounted for 47% of 2013 general fund revenues followed by property taxes revenues. Interlocal contracts are subject to annual renewal and appropriation, resulting in a degree of financial uncertainty.

Standard & Poor's considers Harris County Department of Education's financial management practices "strong" under its Financial Management Assessment 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 trustees with a monthly report. Management performs financial projections for the general fund for the current fiscal year and five years forward; the data is updated annually. The department has a five-year capital improvement plan, an investment policy, and submits monthly investment reports to the school board. The department maintains a set of debt management principles and follows general fund policy of maintaining between 12% and 15% of expenditures in reserves. In addition, officials informally target the maintenance of at least 25% of expenditures in unassigned fund balance.

Including all overlapping jurisdictions, the department's overall net debt burden is a moderately high 6.6% of fiscal 2014 AV, or a moderate \$4,903 per capita. A vast majority of this debt is attributed to Harris County, Houston, and the 26 underlying school districts. Debt service carrying charges were, in our opinion, a low 3.2% of fiscal 2013 expenditures. Amortization is rapid, with 100% principal repaid by 2023. Management indicates the department does not intend to issue additional debt within the next two years.

The department participates in Teacher Retirement System of Texas (TRS) and contributed \$763,669 in fiscal 2013. In addition, the department also provides other postemployment benefits (OPEB) in the form of health insurance through TRS-Care. In 2013, the department contributed \$271,391. The combined pension and OPEB contributions represented 1.2% of total government expenditures for fiscal 2013.

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 its very strong financial position. In addition, the department's diverse services and the large number of school districts it contracts with are stabilizing factors. Although unlikely in our two-year horizon, a significant decline in department's financial position due mainly to nonrenewal of interlocal contracts revenues could lead us to lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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