

**STANDARD
& POOR'S**

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reference no.: 40169750

March 29, 2011

Harris County Board of Education
c/o Harris County Department of Education
6300 Irvington Blvd.
Houston, TX 77022--5618
Attention: Ms. Elaine Nichols, Chief Financial Officer

04-15-11P02:22 RCVD

Re: ***Harris County Department of Education Public Facility Corporation, Texas, Outstanding Lease and Refunding Bonds, (Harris County Department of Education) Series 2006 A,B,C***

Dear Ms. Nichols:

Standard & Poor's has reviewed the Standard & Poor's underlying rating (SPUR) on the above-referenced obligations. After such review, we have affirmed the "A+" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

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Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a Standard & Poor's Financial Services LLC business

A handwritten signature in black ink, appearing to read "Stanley A. Kohn". The signature is written in a cursive, flowing style.

th
enclosure

Harris County Department of Education Public Facility Corporation, Texas Harris County Department of Education

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Credit Profile

Outstanding Lease and Refunding Bonds, (Harris County Department of Education), Series 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 Board 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.

RatingsDirect

Publication Date

April 6, 2011

The department is, in essence, coterminous with Harris County, with an estimated population of 4.07 million, which contains Houston. 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 2011, the department levied just 0.629 cents, providing it with the flexibility to increase property tax revenues if necessary.

The department's large property tax base has experienced steady growth; AV increased by 54% to \$283.91 billion in fiscal 2010 from \$184.95 billion in fiscal 2004. For fiscal 2011, the department experienced a 4% AV contraction to \$272.49 billion. No concentration exists among any of the 10 leading property taxpayers. Market value, a measure of wealth, is, in our opinion, a strong \$67,153 per capita. Median household effective buying income was, in our view, a good 103% of the 2010 national level.

The department's financial position is, what we consider, strong. The fiscal year-end 2010 unreserved general fund balance of \$9.04 million equaled, in our opinion, a very strong 22% of general fund expenditures. The general fund also contained an additional \$12.69 million reserved for various purposes at fiscal year-end 2010. Customer fees and charges, including interlocal contracts, accounted for 51% of 2010 general fund revenues while property taxes provided roughly 38%. Interlocal contracts are subject to annual renewal and appropriation, resulting in a degree of financial uncertainty. Based on year-to-date results, management expects to draw its unreserved general fund balance down to 19.5%-20.0% of expenditures by fiscal year-end 2011 compared with 22.0% at fiscal year-end 2010 due primarily to the funding of roughly \$1.8 million of capital projects with general fund reserves.

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 it 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.

Including all overlapping jurisdictions, the department's overall net debt burden is, in our opinion, a moderately high 7.5% of fiscal 2011 AV, or a moderate \$4,995 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 3.1% of fiscal 2010 expenditures. Amortization is, what we consider, rapid with officials planning to retire all principal by 2023. Management indicates the department does not intend to issue additional debt within the next two years.

Outlook

The stable outlook reflects Standard & Poor's opinion of the department's flexibility to tax, what Standard & Poor's considers, Harris County's very large and diverse property tax base, which should ensure it will likely maintain its, in our opinion, currently strong financial position. In addition, the

department's diverse services and the large number of school districts it contracts with are stabilizing factors.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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