

Fort Bend County, Texas

New Issue Report

Ratings

Long-Term Issuer Default Rating AA+

New Issue

\$52,050,000 Combination Tax and Revenue Certificates of Obligation, Series 2017A AA+

Outstanding Debt

Limited Tax Bonds AA+

Unlimited Tax Bonds AA+

Fort Bend Grand Parkway Toll Road Authority Limited Contract Tax and Subordinated Lien Toll Road Revenue Bonds AA+

New Issue Summary

Sale Date: Week of July 17 via negotiated sale.

Series: \$52,050,000 Combination Tax and Revenue Certificates of Obligation, Series 2017A.

Purpose: Roadway improvements.

Security: Limited ad valorem tax and a de minimis pledge of surplus net revenues of Fort Bend County's park system.

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.

Key Rating Drivers

Economic Resource Base: Located southwest of the city of Houston, the county is a rapidly growing part of the metropolitan service area (MSA). Sugar Land (GOs rated 'AAA' with a Stable Rating Outlook) is the county's 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.

Revenue Framework: 'aaa' factor assessment. 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' factor assessment. 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 pressure to provide basic services, typically provided by cities, to unincorporated areas where most population gains are taking place.

Long-Term Liability Burden: 'aa' factor assessment. Debt-financed capital needs, fueled by rapid population growth, may cause an increase in the liability burden but Fitch Ratings expects it will remain manageable. The county's unfunded pension liability is low and consistent funding at actuarially determined levels should keep it low.

Operating Performance: 'aaa' factor assessment. 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.

Related Research

Fitch Rates Fort Bend Co., TX \$52.1MM COs 'AA+'; Outlook Stable (June 2017)

Analysts

Steve Murray
+1 512 215-3729
steve.murray@fitchratings.com

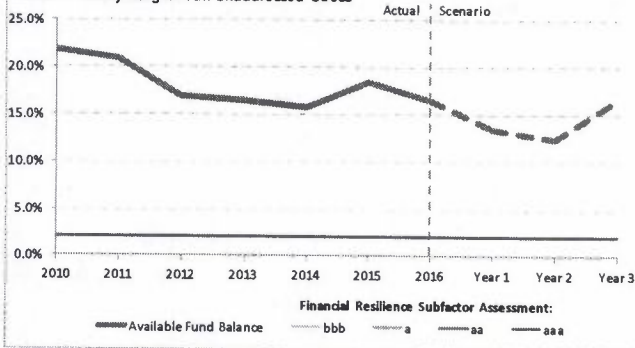
Leslie Cook
+1 512 215-3740
leslie.cook@fitchratings.com

Fort Bend County (TX)

Scenario Analysis

v. 2.0 2017/03/24

Reserve Safety Margin in an Unaddressed Stress



Analyst Interpretation of Scenario Results:

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 (16.6% 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.

Scenario Parameters:

	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	4.0%	7.4%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2010	2011	2012	2013	2014	2015	2016	Year 1	Year 2	Year 3
Total Revenues	201,339	205,874	203,341	218,453	234,571	253,986	281,635	278,819	289,913	311,448
% Change in Revenues	-	2.3%	(1.2%)	7.4%	7.4%	8.3%	10.9%	(1.0%)	4.0%	7.4%
Total Expenditures	189,160	201,491	203,350	207,559	220,396	232,816	267,358	272,706	278,160	283,723
% Change in Expenditures	-	6.5%	0.9%	2.1%	6.2%	5.6%	14.8%	2.0%	2.0%	2.0%
Transfers In and Other Sources	5,101	5,261	363	691	10	159	17	17	18	19
Transfers Out and Other Uses	8,463	8,965	8,386	10,205	14,067	12,920	13,539	13,810	14,086	14,368
Net Transfers	(3,362)	(3,704)	(8,023)	(9,514)	(14,057)	(12,761)	(13,522)	(13,793)	(14,069)	(14,349)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	8,817	679	(8,032)	1,380	118	8,410	754	(7,680)	(2,316)	13,376
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	4.5%	0.3%	(3.8%)	0.6%	0.1%	3.4%	0.3%	(2.7%)	(0.8%)	4.5%
Unrestricted/Unreserved Fund Balance (General Fund)	43,269	43,923	35,744	35,895	36,928	45,357	46,161	38,480	36,165	49,541
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	43,269	43,923	35,744	35,895	36,928	45,357	46,161	38,480	36,165	49,541
Combined Available Fund Bal. (% of Expend. and Transfers Out)	21.9%	20.9%	16.9%	16.5%	15.8%	18.5%	16.4%	13.4%	12.4%	16.6%
Reserve Safety Margins	Inherent Budget Flexibility									
		Minimal	Limited	Midrange	High	Superior				
Reserve Safety Margin (aaa)		16.0%	8.0%	5.0%	3.0%	2.0%				
Reserve Safety Margin (aa)		12.0%	6.0%	4.0%	2.5%	2.0%				
Reserve Safety Margin (a)		8.0%	4.0%	2.5%	2.0%	2.0%				
Reserve Safety Margin (bbb)		3.0%	2.0%	2.0%	2.0%	2.0%				

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	6/30/17
AA+	Assigned	Stable	3/28/12

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 generate 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 and gas sector have periodically announced layoffs and the unemployment rate has increased modestly, but trends in home-building, in-migration, and non-energy sector employment remain positive. The county has posted solid taxable assessed valuation (TAV) gains in each of the past four fiscal years, including a 9% increase in fiscal 2017 to nearly \$58.4 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 comprised 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 taxable assessed valuation (TAV) loss in fiscal 2012) have contributed to the county's 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 assessed valuation cap for operations and maintenance and debt service is ample given the fiscal 2017 rate of \$0.446 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.

Related Criteria

U.S. Public Finance Tax-Supported
Rating Criteria (May 2017)

Long-Term Liability Burden

At 16% of total personal income, the combined burden of overall debt and net pension liability is 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 overlapping debt (issued primarily by area school districts and special districts) comprising the vast majority of the \$7.1 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 debt amortization is average at just under 50% 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. 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. For details, see "Scenario Analysis" on page 2.

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 \$11 million surplus after transfers and comparable addition to fund balance. Management also reports county departments are being asked to limit fiscal 2018 budget requests to minimal increases due to possible legislative consideration of a property tax revenue cap bill in a special session that is taking place this summer in Austin.

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