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Fort Bend (County of) TX

Update to credit analysis

Summary

Fort Bend County (Aa1 stable) has a large and rapidly growing tax base and is located within the economically vibrant Houston metropolitan area. The county's debt burden is manageable, pension liabilities are minimal, and wealth/income metrics among residents are strong. These attributes are weighed against the county's financial position, which is healthy but weaker than for similarly rated peers. The rating also considers that material investments in infrastructure will be required to accommodate rapid growth.

Credit strengths

» Large and growing tax base

» Strong wealth and income metrics

» Substantial flexibility to increase taxes

Credit challenges

» Lower fund balance and liquidity and higher debt burden than similarly rated peers

» Significant future infrastructure needs due to ongoing development

Rating outlook

The stable outlook reflects our expectation that the county's strong economic metrics and growth will continue to support the rating for the foreseeable future but that infrastructure needs and other growth pressures will limit any improvement in the county's relatively weak financial position.

Factors that could lead to an upgrade

» Significant and sustained improvement in fund balance and liquidity

» Continued tax base growth without additional debt

Factors that could lead to a downgrade

» Sustained deficits that erode reserves/liquidity

» Large increases in debt

Key indicators

Exhibit 1

Fort Bend (County of) TX	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$38,034,487	$39,439,947	$41,977,668	$45,576,902	$53,358,083
Population	587,666	608,939	632,946	658,331	716,087
Full Value Per Capita	$64,721	$64,768	$66,321	$69,231	$74,513
Median Family Income (% of US Median)	143.5%	146.7%	146.7%	150.3%	150.3%
Finances					
Operating Revenue ($000)	$251,067	$268,778	$288,813	$308,218	$340,817
Fund Balance ($000)	$45,482	$43,216	$47,155	$56,520	$58,048
Cash Balance ($000)	$51,419	$48,599	$50,514	$61,452	$59,838
Fund Balance as a % of Revenues	18.1%	16.1%	16.3%	18.3%	17.0%
Cash Balance as a % of Revenues	20.5%	18.1%	17.5%	19.9%	17.6%
Debt/Pensions					
Net Direct Debt ($000)	$516,665	$499,135	$606,122	$612,610	$678,280
3-Year Average of Moody's ANPL ($000)	$174,730	$228,186	$252,984	$304,332	$348,914
Net Direct Debt / Operating Revenues (x)	2.1x	1.9x	2.1x	2.0x	2.0x
Net Direct Debt / Full Value (%)	1.4%	1.3%	1.4%	1.3%	1.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	0.8x	0.9x	1.0x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.5%	0.6%	0.6%	0.7%	0.7%

Source: Fort Bend County Audited Financial Statements, Moody's Investors Service

Profile

Fort Bend County is located in the southeastern portion of Texas, within the Houston metropolitan area. The rapidly developing county encompasses roughly 886 square miles and has a population of 658,331 as of 2015.

Detailed credit considerations

Recent developments: Hurricane Harvey causes significant flooding, but financial impacts will be minimal

We do not expect any significant financial impacts on the county government from Hurricane Harvey. The storm made landfall in Texas in late August of 2017 and caused widespread damage throughout the Houston area. Wind damage was limited, however the area was inundated with over 40 inches of rain which caused widespread flooding. Fort Bend County officials report that over 6,800 homes were impacted along with hundreds of businesses with total damage valued at over $1 billion. Following the completion of an ongoing tax base reassessment, the loss of tax revenue for fiscal 2018 is estimated at $1.4 million, but this is less than 1% of general fund revenue. Damage to county facilities and equipment was estimated at $1.1 million, but essentially all damage will be reimbursed by the county's insurance provider. Finally, the county has applied for $65 million in reimbursement for storm costs from the Federal Emergency Management Agency and will make repairs to flood control and drainage infrastructure as funds are received with minimal impact on liquidity. Should reimbursement be delayed extensively, county officials will consider the use of temporary financing until funds are disbursed.

Economy and tax base: Large and growing tax base benefits from proximity to Houston

Benefiting from its location close to Houston (Aa3 stable), Fort Bend County's large tax base will continue to experience growth in the near term. The primarily residential tax base grew a strong 7.6% over the prior year, reaching a sizeable $62.8 billion in total assessed value for fiscal 2018. Single-family residential values grew $3.9 billion from the previous year, the primary driver behind the overall growth. Ongoing residential construction within multiple master-planned communities within the county suggests that growth will continue for the foreseeable future, with county officials also reporting a variety of retailers and business parks undergoing expansion.

The economy is diverse with top employers representing the education, engineering and construction, health care, oil and gas, and transportation sectors. Last year, management noted modest employment losses were due to the downturn in the oil and gas sector. But, most of those losses were offset by employment gains in other sectors, such as health care and engineering. Oil, gas and other mineral values account for a very small 0.1% of fiscal 2018 values. Likewise, the top 10 taxpayers comprised a modest 2.9% of value in 2017, including NRG Energy, Inc. (Ba3 stable; 1.2% of full value).

Fort Bend County's strong population growth between 2000 and 2010 (65.1% to 585,375 residents) continued into 2015 with an estimated population of 658,331 residents, reflecting a 4% increase. The county's favorable location to Houston and improved access to the metro area from newly completed transportation corridors is expected to support continued population growth. Income metrics are strong with median family income equal to 150.3% of the US. Unemployment is identical to the national level of 3.9% as of October 2017, although slightly higher than the rate of 3.5% for the state.

Financial operations and reserves: Strong fiscal management will support stable financial operations

We expect the county's strong fiscal management, including conservative budgeting practices and adherence to formal policies, to support stable financial operations in the near term. As of the most recent audit for fiscal 2016, general fund revenues of $281.7 million outpaced expenditures by $754,000 (including transfers in and out), which increased the available general fund balance to $46.2 million at year-end, representing an adequate 16.4% of revenues. Including the road and bridge fund and debt service fund, the county's available operating fund balance increased by $2.2 million to $58 million at year-end 2016, representing an adequate 17% of operating revenues.

Nevertheless, the county's financial position, while healthy, is below average among similar issuers at the Aa1 rating level. The county has, however, maintained reserves in excess of its formal reserve policy of a minimum of 15% of expenditures. Property taxes are the county's largest source of operating revenues, accounting for 74% of fiscal 2016 general fund revenues. The county levies a total property tax of $4.69 per $1,000 of valuation, with $3.64 used to fund general fund operations. This levy provides ample headroom under the constitutional rate limit of $8.00 per $1,000 should additional revenue be required to fund either debt service or operations.

Unaudited financial results provided for the 2017 fiscal year indicate that Fort Bend County experienced a $4.6 million general fund surplus on the year, with a corresponding increase in reserves to 17.1% of general fund revenue on the year. Although the county adopted a deficit budget for fiscal 2018, as it has historically, actual results are expected to be break even or better despite the anticipated $1.4 million decline in tax revenue due to the Hurricane Harvey reassessment. Considering the county's ample taxing authority as well as ongoing tax base growth, significant reductions in reserves are unlikely over the long run.

LIQUIDITY

The county's liquidity is expected to remain stable in the near term given favorable budgetary expectations. The general fund reported $47.9 million in cash and investments at year-end 2016, representing an adequate 17% of general fund revenues. Liquidity in the operating funds totaled $59.8 million (17.6% of operating fund revenues).

Debt and pensions: Manageable debt burden with low pension liabilities

The county's debt burden, while high in comparison to other highly rated counties, is manageable although future issuances due to growth related capital needs make any future reductions unlikely. Net direct debt is $745 million, which is equivalent to 1.2% of fiscal 2018 assessed value. Debt service costs for the county were moderate as of the fiscal 2016 audit, accounting for 10.2% of operating funds expenditure. The overall net debt burden, inclusive of debt issued by overlapping entities, is highly elevated at 11.5% of valuation due to the large amount of capital costs associated with rapid growth for underlying school and infrastructure districts.

County officials expect to issue $109 million of additional general obligation debt in 2019 for mobility and facility improvements. Financing of hurricane related capital outlay is contingent upon federal reimbursement timeliness, however any required bridge financing would not have a material impact on the county's debt burden or carrying charges.

DEBT STRUCTURE

All of the county's debt is fixed rate. Amortization is slower than average with 51% of debt scheduled to be repaid within the next 10 years.

DEBT-RELATED DERIVATIVES

Fort Bend County is not party to any debt-related derivative agreements.

PENSIONS AND OPEB

The county has consistently fully funded its annual required pension contributions and we expect this to continue. The county provides retirement, disability, and death benefits for all of its full time employees through a non traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The county's pension burden remains manageable despite sizable increases in unfunded liabilities. Moody's fiscal 2016 adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is $419 million. The three-year average ANPL to operating revenues ratio is a modest 1.02 times. The three-year average ANPL to full value ratio is 0.7%. Moody's ANPL reflects certain adjustments we make to improve the comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information but to improve comparability with other rated entities.

The county currently provides health care benefits (medical and prescription drug benefits) to retirees and their dependents meeting certain eligibility requirements. Funding of these benefits continues to occur on a pay-as-you-go basis and contributions are approved on a year-by-year basis. The county's OPEB costs in fiscal 2016 were $42.6 million, of which the county contributed $7 million (16.3% of OPEB costs). The net OPEB obligation of the county rose to $256.9 million in 2016 from $221.3 million in the previous year. Total fixed costs including debt service, pension contributions, and OPEB were a manageable 17% of fiscal 2016 operating revenues.

Management and Governance: Very strong institutional framework

The county is governed by a five member commissioners court led by the county judge. The county judge is elected for a term of four years and commissioners serve four year staggered terms. The county auditor is appointed for a term of two years and is the chief financial officer of the county. Conservative budgeting practices and adherence to formal policies indicate strong financial management.

Texas Counties have an Institutional Framework score of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap, which cannot be overriden. However, the cap of $8.00 per $1,000 of assessed values, with no more than $4 allocated for debt service, still allows for significant revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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