

THE BOND BUYER

The Daily Newspaper of Public Finance

Wednesday, September 15, 2010

Harris County, Texas, Plans \$140M Toll Road Refunding

BY RICHARD WILLIAMSON

DALLAS — Harris County, Texas, is bringing \$140 million of toll road refunding bonds to a market that appears ready to reward issuers bearing strong credit ratings.

The negotiated deal will be led by **Rice Financial Products Co.**

The county, which includes Houston, will price \$40 million of subordinate-lien bonds as Series B, with \$20 million of taxable bonds as Series C and \$80 million of senior-lien bonds as Series D.

Estrada Hinojosa & Co. and Fidelity Capital Markets are co-managers on the deal. First Southwest Co. is financial adviser. Andrews Kurth is bond counsel.

The senior-lien Series C and D carry ratings of AA-minus from Standard & Poor's and Fitch Ratings.

Series B is rated AAA because of the unlimited-tax pledge backing the debt, even though it is considered a subordinate lien. That matches Harris County's general obligation rating.

Moody's Investors Service does not rate the upcoming issue.

"The ratings reflect what we consider to be extremely strong historical growth in traffic and revenues, which have contributed to the toll road's healthy financial position," wrote Standard & Poor's analyst Adam Torres. "And management's policy of not funding new road projects unless it can provide a minimum of 1.25 times net revenue debt-service coverage, which we believe is prudent and conservative."

Fitch analyst Jose Acosta noted that the Harris County Toll Road Authority's policy creates a greater degree of certainty for toll rates by providing for future increases at 2% or inflation, whichever is greater.

"Offsetting credit concerns include the authority's high operating expense growth over the last few years and the toll system's vulnerability to economic downturns and weather-related catastrophes that can negatively impact traffic and revenue growth," Acosta added.

The county expects toll revenue to cover all debt service. Still, the subordinate-lien bonds are also backed by the unlimited-tax pledge.

The toll roads' gross revenues secure about \$2.1 billion of revenue bonds outstanding.

The Toll Road Authority has about \$581 million of unlimited-tax and subordinate-lien revenue bonds.

With a population of more than 3.6 million people, Harris County is the center of the greater Houston area's expanding economy.

Its \$285 billion property tax base, up more than 80% from fiscal 2001 to fiscal 2009, has continued to expand in fiscal 2010, according to analysts, though at a slower pace.

County officials expect the property tax base to fall as much as 4% for fiscal 2011 as the regional economy continues to feel the impact of the recession.

"The growth rate in recent years, which has averaged more than 7%, provided the county some cushion to manage growth-related issues like debt retirement and the internal funding of construction and maintenance of infrastructure," Standard & Poor's said. "Median household income levels remain good, in our opinion, at 100% of the national average." □