



Hurricane Harvey's Impact on the Municipal Bond Market (8/29/2017)

Hurricane Harvey's aftermath is a natural disaster of epic proportion. Nevertheless, there is no prior history of any significant credit dislocation as a consequence of such disasters (as exemplified by Hurricane Sandy, Katrina and Andrew). This sentiment was shared by Fitch Analyst Steve Murray who was quoted in a recent Bond buyer article as saying "From a global perspective, we don't expect this event to be materially different from a Katrina or Sandy. We're not anticipating any long-term implications".

The declaration of the 30 county impacted area as a federal disaster area immediately qualifies both municipal entries and governments as eligible for federal funding through FEMA and other entities. This is also true for individual homeowners.

Recovery will be measured over both the short and long term with significant capital infusions from FEMA and other various agencies. Additionally local resources and the ample liquidity characteristic of the largest effected municipalities and authorities will also support reconstruction efforts. External liquidity needs, if any, should not be a problem.

The Houston metropolitan area represents the nation's 4th largest population center in excess of 6 million people. A diversified and strong regional economy is reflected in the strength of the majority of local issuer credit ratings that, on average, are in the "AA" and "AAA" categories.

The majority of our holdings in the Houston metropolitan area include:

- **Local suburban school districts** that are secured for the most part by property taxes and various revenues. More importantly these credits enjoy "AAA" ratings based upon the additional security and enhancement from the backing of the Texas Permanent School Fund with an endowment in excess of \$37 billion.
- **Harris County General Obligation Bonds**- This AAA rated county has ample funds in excess of 40% of annual expenditures.
- **Houston Utility System (AA)** – in addition to ample debt service reserves, the utility has approximately 2 years worth of operating cash on hand.
- **Harris County Toll Road Authority (AA)** specifically plans and budgets for emergencies with dedicated allocations for floods and hurricanes. The unrestricted net position of the Authority is in excess of \$700 million notwithstanding dedicated bond reserve funds.



Bottom line, we do not anticipate any material adverse credit quality deterioration as a result of the aftermath of this storm. Of course we will continue to monitor these events and report back with any changes in credit events.

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