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[Moody's: Texas and its Municipalities Face Difficult Budget Decisions in Wake of Oil Slowdown.]

New York, February 09, 2015 — The State of Texas (Aaa stable) and its local governments will encounter difficult budget decisions during the remainder of this fiscal year and the next biennium owing to lower oil prices, Moody's Investors Service says in a new report "Tough State and Local Government Budget Decisions Ahead as Oil Sector Slows."

Despite having a robust and diverse economy, output and revenue growth will slow due to the steep price drop in oil. Budgetary priorities will therefore vie against lower revenues amid the slowdown.

"The state comptroller expects tax revenue growth to slow considerably and for growth to remain low during the next few years," said Moody's Vice President — Senior Credit Officer Nicholas Samuels. "The price drop is occurring while Texas considers how to spend more on schools, increase transportation funding, bolster its pensions and a political desire to cut taxes,"

The Texas general fund budget is not as directly exposed to oil and gas severance taxes as other states.

Oil and gas taxes comprise 11.2% of Texas' general revenue fund, compared with sales tax, which constitutes 53% of general revenue. While state revenue growth will slow in the next few years, because of the drag of lower oil prices, the lower oil prices could also boost consumer sentiment and buying power, which could positively impact sales tax receipts.

Economic and budgetary impact from lower oil prices will vary regionally. Houston (Aa2 stable) and Harris County (Aaa stable) are the most vulnerable to the downturn because of the high concentration of energy-related employment. Houston has 4.7% of its employment tied to the sector and 10 of Harris County's top 11 employers are oil- and natural gas-related.

These localities are regarded as the "world's oil and gas capital," Moody's Assistant Vice President — Analyst Adebola Kushimo says in a new report, "Harris County and Houston's Economies Poised to Slow Due to Declining Oil Prices." Kushimo says the region's employment is heavily tied to the sector and until oil prices stabilize, job losses will lead to declines in sales tax revenues.

Austin (Aaa stable), Dallas (Aa1 stable) and San Antonio (Aaa negative) are less susceptible to oil price fluctuations since their respective economies are more diverse with technology, transportation, and healthcare among their key employment components. Outside of large metro areas, some regions where oil production is concentrated will slow and see significant contraction, such as Midland (Aa1) and Odessa (Aa2).

In addition, the local economies of some Texas Independent School Districts (ISDs) will be affected by a significant and prolonged oil price decline, which could affect some ISDs' abilities to make timely or complete debt service payments. In a new report, "Fund Exposed to Oil Slowdown but Retains Strong Ability to Cover Calls on Guarantee," Moody's Analyst John Nichols says the Texas Permanent School Fund (Aaa stable) is fundamentally sound despite its exposure to ISDs in high oilproducing areas.

However, downside risk would outweigh upside potential for Texas and its major metro areas if oil prices remain below $50 per barrel for a prolonged period, particularly in the current fiscal year. Greater job losses would constrain the state’s revenue forecast, resulting in budget cuts felt at local levels.

Subscribers can access the report at:
https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1002523.