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Fitch: Hurricane Harvey's Devastation Unlikely to Affect US Public Finance Credit Quality.

Fitch Ratings-New York-29 August 2017: Fitch Ratings believes the short-term fiscal impact of Hurricane Harvey on public entities in affected areas of Texas and Louisiana will largely be mitigated by their financial flexibility and support from federal and state governments and private insurance policies.

As has been the case historically with natural disasters (most recently Hurricanes Katrina, Sandy and Ike), the local governments affected by Harvey are likely to use a combination of federal relief funds, state support and insurance claims to pay for most storm-related damage. On Friday President Trump approved a major disaster declaration. According to FEMA's website, the following 13 Texas counties are included as affected areas in the declaration: Aransas, Brazoria, Calhoun, Chambers, Fort Bend, Galveston, Harris, Jackson, Liberty, Matagorda, Victoria, Wharton and Bexar.

The president's approval starts the process of making assistance available in the affected counties. Assistance to individuals can include grants for temporary housing and home repairs and low-cost loans to cover uninsured property losses. For state and eligible local governments and non-profit organizations, federal funding can be available for emergency work in the affected areas and for hazard mitigation measures statewide. The magnitude of aid, its sufficiency to address the damage, and the availability of state funding to cover any shortfall cannot yet be determined. In several past storms, states have contributed to recovery costs and/or provided support for local governments' short-term liquidity needs.

We believe the financial flexibility of local governments and, utilities, along with the resumption of normal business operations, will mitigate the risk posed by lost revenue. In most cases, following the initial interruption, economic activity and related tax revenue is likely to increase, as residents and business purchase items related to repair and rebuilding and workers are hired to assist in this effort. Hurricane Katrina in 2005 was the most notable exception to this pattern of prompt rebuilding and service restoration due to the dislocation of the city's population for an extended period. Even in this case, outside assistance allowed the city to meet its financial obligations throughout the reconstruction and repopulation process.

The City of Corpus Christi dodged the brunt of Harvey, although smaller communities to the northeast took a direct hit and will be slower to recover. Houston (population 2.3 million) and the surrounding communities are currently experiencing unprecedented levels of flooding. They are part of a very large and diverse regional economy that Fitch believes should begin to recover promptly once the floodwaters recede. Overall, we expect most damaged property in affected communities to be rebuilt, which will maintain tax bases, rather than residents and businesses leaving the areas.

We expect smaller municipalities with low levels of liquidity before the storm to be the most affected. However, information-gathering from the most affected communities is challenged by their immediate need to protect residents and by damage to basic infrastructure. Information from which we can draw meaningful conclusions is therefore not yet available for this group of rated entities.

While we expect recovery efforts in those jurisdictions to follow historical patterns of storm recovery, we will report on any significant findings that might affect credit quality.

Fitch expects the majority of its rated higher education institutions will experience relatively limited disruption as a result of Hurricane Harvey. Some credits in the immediate impact zone have been forced to remain closed for several days until campus safety needs are met and regional transportation systems return to normal. We do not anticipate taking negative rating action solely as a result of the storm. However, we will continue to monitor possible longer-term impacts to enrollment, property damage, or other operating issues in the coming months.

Fitch has contacted its rated nonprofit hospitals in the storm's path, and all have reported that they have managed through Hurricane Harvey with minimal damage and expected limited financial impact. Most of the credits did not have facility damage and while some canceled elective procedures in preparation for the Hurricane, others were recipients of transfers into their facilities. All facilities remain open. With more rain and flooding expected over the next 24 to 72 hours, Fitch is continuing to monitor the situation. For Fitch's rated nonprofit continuing care retirement communities in the area, none suffered extensive facility damage. Fitch will continue to monitor all of our credits for any operational pressure as a result of the storm.

Fitch is in the process of contacting various transportation related issuers in Texas including airports, toll roads and seaports. Fitch does not anticipate any near-term rating impacts, but additional leverage for repairs and operational impacts will have to be fully analyzed. Fitch-rated transportation issuers maintain adequate-to-strong liquidity to deal with short-term needs once facilities reopen. Near-term risks to operations will be assessed when facilities determine the extent of the damage. The ability and timing to reopen will likely impact operations but will vary across assets.

Commercial air service has ceased at both Houston International Airport (IAH) and Houston Hobby Airport (HOU) and the Port of Houston facilities remain closed. Service levels at the ports and airports could be significantly lower in the near term, but revenue losses may be partially insulated, even during periods of suspended operations, through lease agreements with airlines, shipping tenants, and other commercial users.

Toll roads in the greater Houston area including Harris County Toll Road, Fort Bend Expressway, Grand Parkway (partially operational and under construction)have waived tolls and/ or have sections that are closed or impassable. SH 288 (Blueridge Transportation Group) is currently under construction with an expected opening of July 2019. While there will be impacts, the 23 months remaining to scheduled completion provides flexibility to mitigate delay risk.

Moderate to major capital rehabilitation and replacement for transportation assets, ranging from terminal and runway damage at the airports to roadway damage on the toll roads and equipment, electrical and IT systems replacement, will likely be costly and delay issuers in becoming fully operational. Some of the costs will be covered by insurance claims. Further, to the extent employees have been displaced, operations could be further impacted in the near term depending on staffing adequacy. Underlying demand impact is hard to predict, but there will be some that remains subject to timing of the recovery. Enterprises with pricing flexibility will be able to better navigate those impacts versus project financings.

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