

09 SEP 2021

Fitch Rates Texas Water Dev Board's Ser 2021 SRF Revs 'AAA'; Outlook Stable

Fitch Ratings - Austin - 09 Sep 2021: Fitch Ratings has assigned a 'AAA' rating to the following bonds issued by the Texas Water Development Board (TWDB):

--Approximately \$413.55 million state revolving fund (SRF) revenue bonds, new series 2021.

Bond proceeds will be used to finance eligible clean water and drinking water projects within the state, to meet state match requirements, and pay for the costs of issuance. The bonds are expected to price via negotiation around the week of Oct. 11.

In addition, Fitch affirms its rating on the following outstanding bonds:

--Approximately \$801.02 million SRF revenue bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds are primarily secured by pledged clean water SRF (CWSRF) and drinking water SRF (DWSRF) obligor repayments payable from the political subdivision entities, and amounts held in certain pledged accounts.

KEY RATING DRIVERS

Strong Financial Structure: Fitch's cash flow modeling demonstrates TWDB's combined CWSRF and DWSRF pool programs can continue to pay SRF bond debt service, even with defaults in excess of Fitch's 'AAA' liability rating stress hurdle, as produced using Fitch's Portfolio Stress Model (PSM).

High-Quality Obligor Pool: Approximately 82% of the TWDB's SRF obligor portfolio is calculated to be investment grade, resulting in strong overall pool credit quality. Obligor security is also strong, with all pool obligors backed by utility or general obligation pledges, or a combination of utility/general obligation pledges.

Average Obligor Concentration: The largest single obligor and the top 10 obligors account for approximately 12% and 51% of the pool, respectively, which compares favorably relative to Fitch's SRF sector 'AAA' medians.

Sound Program Management: TWDB maintains solid underwriting guidelines and monitoring procedures. Delinquencies are very rare and no permanent defaults have occurred in the TWDB's

CWSRF/DWSRF programs' histories.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable given the 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Significant deterioration in aggregate borrower credit quality, increased pool concentration or increased leveraging resulting in the program's inability to pass Fitch's 'AAA' liability rating stress hurdle would put downward pressure on the rating.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CREDIT PROFILE

Through its SRF programs, the TWDB provides below-market financing to governmental entities within Texas for eligible clean water (CW) and drinking water (DW) projects. The new series 2021 bonds are the fourth issuance of obligations under the 2018 Master Resolution (2018 MR). The 2018 MR combined the previously separate CW and DW financing programs via cross-collateralization of the two funds. While the 2018 MR program is relatively new, concentration is improving with pool growth.

FINANCIAL STRUCTURE EXHIBITS STRONG DEFAULT TOLERANCE

Cash flow modeling demonstrates the combined program can continue to pay bond debt service even with hypothetical obligor defaults of 100% in the first, middle and last four years of the program's life (as per Fitch criteria, a 90% recovery is also applied in its cash flow model when determining default tolerance). This is in excess of Fitch's 'AAA' liability rating stress hurdle of approximately 28%, as produced by the PSM. The rating stress hurdle is calculated based on overall pool credit quality as measured by the rating of underlying obligors, size, term and concentration.

As an additional measure of financial strength, Fitch calculates the program asset strength ratio (PASR) of the combined CWSRF/DWSRF programs. The PASR calculation includes total scheduled pledged obligor repayments plus pledged account funds divided by total scheduled SRF bond debt service. The

resulting PASR is approximately 2.8x, which is considered very strong relative to Fitch's 2020 'AAA' median PASR of 2.1x.

SUBSTANTIAL LOSS PROTECTION

TWDB's SRF programs benefit from loss protection provided both by pledged obligor repayments in excess of bond debt service due (overcollateralization) and by amounts held in certain accounts pledged to bondholders. Obligor repayments overcollateralize bond debt service by a minimum of 2.4x annually, which compares very favorably with the 'AAA' rating category median of 1.6x.

The cross-collateralization feature of the CWSRF and DWSRF allows for shortfalls in one program to be covered by surpluses in the other, and vice versa. Fitch consequently combines the programs in its modeling analyses. Fitch views the cross-collateralization feature favorably, as it improves overall diversity and provides the program with additional credit enhancement if there is a shortfall in either of the CWSRF and DWSRF programs.

HIGHLY RATED POOL WITH AVERAGE CONCENTRATION

TWDB's CWSRF and DWSRF programs exhibit strong credit quality, with approximately 82% of the pool obligations held by investment-grade borrowers, including 70% rated at or above 'AA-'. Obligor security is also strong, with nearly all backed by net system revenue pledges or a combination of utility revenue and general obligation pledges.

The combined pool is larger than average with approximately 341 obligors. The top 10 obligors represent approximately 51% of TWDB's portfolio, which is slightly better than Fitch's 2020 'AAA' median of 54%. The three largest obligors include the city of Houston (AA/Stable; 12% of the total), North Texas Municipal Water District (not rated by Fitch; 10% of the total) and the San Antonio Water system (AA/Stable; 6% of the total). Each of the remaining obligors within the top 10 range from about 2% to 4% of the total pool.

SOUND PROGRAM MANAGEMENT, UNDERWRITING AND MONITORING

The TWDB establishes the financial terms of the obligors. In doing so, the board determines that an eligible obligor has the financial capability to ensure payment of debt service. TWDB's staff is also responsible for monitoring obligors' compliance with covenants and their overall financial profiles. Delinquencies are very rare and no permanent defaults have occurred in the TWDB's CWSRF/DWSRF programs' histories.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Texas Water Development Board (TX) [State Revolving Fund]			

- Texas Water Development Board (TX) LT /Revolving Fund Revenues/ 1 LT AAA  Affirmed AAA 

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◇
NEGATIVE	⊖	◇
EVOLVING	◊	◆
STABLE	⊙	

Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.01 Sep 2021\) \(including rating assumption sensitivity\)](#)

[State Revolving Fund and Municipal Finance Pool Program Rating Criteria \(pub.11 Aug 2021\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Stress Model, v1.11.0 [\(1\)](#)

State Revolving Fund Cash Flow Model, v1.18.1 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Texas Water Development Board EU Endorsed, UK Endorsed

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