

25 AUG 2023

## Fitch Rates Texas Water Development Board's Series 2023 SWIRFT Revs 'AAA'; Outlook Stable

Fitch Ratings - Austin - 25 Aug 2023: Fitch Ratings has assigned a 'AAA' rating to the following bonds issued by the Texas Water Development Board (TWDB):

--Approximately \$969.865 million State Water Implementation Fund for Texas (SWIRFT) revenue bonds, series 2023A and series 2023B (taxable)(Master Trust).

In addition, Fitch has affirmed the 'AAA' rating on the following bonds:

--Approximately \$7,323.635 million (as of June 30, 2023) outstanding SWIRFT revenue bonds.

The Rating Outlook is Stable.

### SECURITY

Bonds are backed primarily by political subdivision obligation (PSO) repayments and certain pledged accounts tied to each series of bonds. In addition, although not pledged nor a legal requirement, in its sole discretion, the TWDB may request that funds be transferred from the approximately \$1.7 billion (March 31, 2023) balance of the State Water Implementation Fund for Texas (SWIFT) to the SWIRFT program to protect against bond debt service shortfalls. SWIFT funds are constitutionally protected and are only available to support TWDB's Texas State Water Plan (SWP) projects.

### KEY RATING DRIVERS

**Portfolio Credit Risk:** The combined PSO pool credit quality is very strong - approximately 87% of the portfolio is rated at least investment grade - but the pool remains somewhat concentrated. The pool's top-10 concentration is approximately 83%, which is above Fitch's 'AAA' rating-category median of 55%. The SWIRFT program pool, which has diversified over the past eight years as new obligors have been added to the portfolio, is expected to become less concentrated over time as the SWIRFT program grows.

**Financial Structure:** Fitch's cash flow modelling demonstrates that program resources are sufficient to protect bondholders from losses under various default scenarios. While the majority of the funds for debt service on the bonds are provided by the program's PSO repayments, funds in the program's SWIRFT assistance accounts are required to ensure full and timely payment of debt service.

Additional loss protection can be provided by funds available in the SWIFT investment portfolio, if necessary, although the funds are not pledged, and the transfer of such funds remains at the sole

discretion of the TWDB. The Texas Treasury Safekeeping Trust Company (TTSTC) is responsible for the management of the SWIFT investments, the growth of which could aid the growth of the SWIRFT program by providing future subsidies.

**Program Management:** Management of the SWIRFT program is provided by the TWDB. The TWDB has extensive experience in managing large state pool programs, such as the TWDB's State Revolving Funds (AAA/Stable). Additionally, Fitch believes that the essentiality of the SWIRFT program, given its role in implementing the Texas SWP, has been demonstrated by strong state and voter support that led to the enabling legislation and creation of a constitutionally dedicated fund to capitalize the program (the SWIFT account).

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Deterioration in aggregate pool credit quality or large increases in program leverage;

--Substantial reductions in the availability of investment assets due to encumbrance, market-value declines or a move toward less liquid asset types.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--The ratings are at the highest level on Fitch's scale and cannot be upgraded.

### **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>.

## **PROFILE**

The TWDB's SWIRFT program facilitates the issuance of revenue bonds, the proceeds of which provide favorable financing to local governmental entities for eligible SWP projects. The SWIRFT and SWIFT programs were approved by voters in 2013 for the purpose of meeting the state's rapidly growing water needs. The SWIFT program was capitalized the same year with a one-time transfer of \$2 billion from the state's economic stabilization fund.

Recent pool metrics and program cash flow ratios are mixed but remained relatively stable since Fitch's

August 2022 review. Cash flow model results have weakened, albeit marginally, as the projected increase in debt service payments is not fully offset by the projected increase in loan repayments. Still, cash flow model results passed Fitch's 'AAA' stress hurdle with ample cushion. The SWIFT investment remained relatively stable at \$1.7 billion at March 31, 2023. PSM Liability Rating Stress Hurdles (LRSBs) remained in line with the prior review and continue to reflect the robust credit quality of the pool (lower LRSBs represent an overall improvement in pool metrics).

## 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 Water			

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Implementation]			
• Texas Water Development Board (TX) /Water Revenues/ 1 LT	LT	AAA 	Affirmed
			AAA 

#### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

#### Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.27 Apr 2023\) \(including rating assumption sensitivity\)](#)

[State Revolving Fund and Municipal Finance Pool Program Rating Criteria \(pub.27 Sep 2021\) \(including rating assumption sensitivity\)](#)

#### Applicable Models

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

Portfolio Stress Model, v1.11.1 [\(1\)](#)

State Revolving Fund Cash Flow Model, v1.18.2 [\(1\)](#)

#### Additional Disclosures

## Solicitation Status

### Endorsement Status

Texas Water Development Board      EU Endorsed, UK Endorsed

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