S&P Global
Ratings

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Summary:

Texas Water Development Board; State Revolving Funds/Pools

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Summary:

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Credit Profile		
US$264.595 mil state revolving fd rev bnds ser 2022 due 08/01/2043		
Long Term Rating	AAA/Stable	New
Texas Wtr Dev Brd SFRP		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the Texas Water Development Board's (TWDB) anticipated $264.595 million series 2022 state revolving fund (SRF) revenue bonds. At the same time, we have affirmed our 'AAA' rating on the board's SRF revenue bonds outstanding. The outlook is stable.

Bond proceeds will be used to fund the purchase of additional local political subdivision bonds, and may also fund the state match requirements for clean water and drinking water SRF programs. Local bond repayments flowing into the SRF programs from the board's portfolio of pledged political subdivision bonds are the primary source of security for SRF revenue bonds.

The stable outlook on the 'AAA' long-term rating reflects the program's financial strength and conservative management and S&P Global Ratings' expectation that the board will maintain strong coverage levels. We do not anticipate changing the extremely strong enterprise and financial risk profiles and, therefore, a lower rating is not likely.

Credit overview

Following the series 2022 issuance, TWDB will have approximately $4.8 billion of political subdivision bonds outstanding pledged to secure about $2.0 billion of state-revolving loan fund debt service payable. Board officials have funded the purchase of political subdivision bonds with a combination of state-match and revenue bonds, federal capitalization grants, and surplus cash flows from the program. The program's capitalization sources have allowed the board to maintain very strong debt service coverage (DSC).

The 'AAA' rating reflects the combination of extremely strong enterprise and financial risk profiles, which, in turn, reflect the board's:

- Low industry risk score and extremely strong market position;
- Ongoing federal and state support, with strong state oversight;
- Extremely strong loss coverage score due to annual coverage generated from program participant payments, which is bolstered by the excellent history of borrower repayment, with no defaults; and

- Generally strong financial policies and practices.

Given these enterprise and financial risk profiles, the final rating is 'AAA' because we did not make any negative overriding adjustments.

Because we view securitizations backed by pools of public sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given that the U.S. sovereign rating is 'AA+'.

Stable Outlook

Downside scenario

Although highly unlikely, a lower rating could be warranted should be there be a combination of excessive leveraging that creates stress on annual coverage levels or should there be a sudden increase in borrower payment defaults or delinquencies.

Credit Opinion

Enterprise risk

The extremely strong enterprise risk profile reflects the program's low industry risk, coupled with an extremely strong market position. The market position is an indication of TWDB's governance structure, along with the ongoing support of the program, and our expectation of continued federal and state equity contributions. The board was established in 1957 by constitutional amendment and provides financial assistance by purchasing bonds issued by entities in the state. It is governed by three governor-appointed members. An executive administrator and an experienced, industry-recognized staff are responsible for managing the board's programs, including the SRF. The state has historically met the federal matching requirement through the issuance of general obligation (GO) bonds but has used SRF revenue bonds to fund the state match since 2018.

The pledged TWDB bond portfolio consists of more than 600 obligations to more than 300 distinct entities across the state. We consider the portfolio diverse, though the top 10 borrowers represent approximately 52% of total par outstanding. Significant borrowers include Houston Combined Utility System (13% of bonds held by the board), the North Texas Municipal Water District (NTMWD; 10%), and the San Antonio Water System (6%). A multiyear commitment to fund projects at NTMWD suggest concentration may increase somewhat in the coming years. Officials conveyed that the program is not making other new multiyear commitments at this time.

Financial risk

The financial risk profile reflects the program's ability to absorb a very high level of loan defaults or delinquencies, coupled with an extremely strong payment history and strong financial management practices.

TWDB is projecting to receive approximately $6.0 billion of loan payments through 2052 to support the clean and drinking water SRF bonds and obligations related to the state GO bonds previously used to fund the state match requirements. A new master resolution was authorized on March 1, 2018. All bonds under the prior clean water SRF master resolution have been defeased to the call date, leaving only the series 2018, 2019, 2020, and 2021 SRF revenue bonds under the new master resolution outstanding.

TWDB can use pledged revenues from existing clean water and drinking water SRF subdivision bonds to pay annual debt service related to the outstanding revenue bonds and state GO bonds issued to fund state match. The pledge of SRF loan repayments to the state GO bonds is subordinate to the pledge of those loan revenues to the SRF bonds. However, our cash-flow analysis includes the debt service on the state GO bonds, as in practice those are repaid from the SRF loan revenue. This all-in coverage produces a still very strong annual DSC no lower than 1.6x during the life of the bonds under our stress scenarios evaluating the influence of certain levels of borrower defaults. Annual coverage under our stress scenarios on the SRF bonds alone projects at no less than 2.0x during the life of the bonds.

Positive credit features also include the board's policies regarding origination and monitoring of bonds it purchases. Prior to the purchase of political subdivision bonds, the TWDB staff reviews financing applications received. The applications include an engineering review, along with certain legal and fiscal information. Once bonds are purchased, the TWDB financial compliance group annually reviews each issuer. There are multiple levels of review, from a general desktop review to a more thorough analysis if needed.

To guard against cash-flow uncertainties, local bond payments are received throughout the year so that TWDB receives funds well in advance of revolving fund bond payment dates. To help gauge future demand for financing assistance, it completes an annual capacity evaluation, with the annual funding level included in the required intended-use plan. Regarding investments, the board follows the guidelines set forth in the state's public funds investment act and public funds collateralization act. The primary objectives are security and liquidity.