

# RatingsDirect®

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## Summary:

# Texas Water Development Board; State Revolving Funds/ Pools

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## Summary:

# Texas Water Development Board; State Revolving Funds/Pools

### Credit Profile

US\$481.69 mil st revolving fund rev bnds ser 2020 due 08/01/2040

*Long Term Rating* AAA/Stable New

Texas Wtr Dev Brd SFRP

*Long Term Rating* AAA/Stable Affirmed

Texas Wtr Dev Brd SRFP

*Long Term Rating* AAA/Stable Affirmed

## Rating Action

S&P Global Ratings has assigned its 'AAA' rating to the Texas Water Development Board's (TWDB) series 2020 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 state match requirements for clean water and drinking water SRF programs, as well as funding the purchase of additional local political subdivision bonds. 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

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;
- 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 Two-Year Outlook**

### **Downside scenario**

Although highly unlikely, a lower rating could be warranted should 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 is a reflection of the 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, with the expectation for 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 used SRF revenue bonds to fund the state match since 2018.

The pledged TWDB bond portfolio consists of more than 500 obligations to almost 320 distinct entities across the state. We consider the portfolio diverse, though the top ten borrowers represent approximately 57.7% of total par outstanding. Significant borrowers include Houston Combined Utility System (17.0% of bonds held by the board), Trinity River Authority (13.6%), and San Antonio Water System (8.2%). Multiyear commitments to fund projects at North Texas Municipal Water District and the City of Pearland suggest greater concentration in the top ten, and to these borrowers, in the coming years.

### **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 approximately \$5.3 billion of payments through 2051 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 state revolving fund (SRF) master resolution have been defeased to the call date, leaving only the 2018 and 2019 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 that are typically supported by SRF; these revenues provide approximately 3x debt service coverage through the life of the

bonds and at least 2x coverage in each year.

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. Management has indicated it is evaluating the need for additional outreach in light of current economic conditions and will act if warranted.

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.

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