

RatingsDirect®

Summary:

Texas Water Development Board; State Revolving Funds/Pools

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Credit Profile

US\$321.755 mil st revolving fd rev bnds ser 2023 due 08/01/2044

<i>Long Term Rating</i>	AAA/Stable	New
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Texas Wtr Dev Brd SFRP

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Texas Water Development Board's (TWDB) anticipated \$321.755 million series 2023 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.

Security

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.

Credit overview

Following the series 2023 issuance, TWDB will have over \$5.1 billion of political subdivision bonds outstanding pledged to secure about \$2.5 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
- 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.

Outlook

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.

Downside scenario

We would consider a lower rating if the TWDB's SRF program increased leverage to an extent that created stress on annual coverage levels or if there were a material amount of borrower payment defaults or delinquencies.

Credit Opinion

Enterprise risk profile: Extremely strong

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 650 obligations to more than 300 distinct entities across the state. The top 10 borrowers represent approximately 50% of total par outstanding, which is a slight improvement over the past year. Significant borrowers include Houston Combined Utility System (12% of bonds held by the board), the North Texas Municipal Water District (NTMWD; 10%), and Dallas (6%), all of which are highly rated.

Financial risk profile: Extremely strong

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 \$6.5 billion of loan payments through 2054 to support the clean water and drinking water SRF bonds and obligations related to the state GO bonds previously used to fund the state match requirements. 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.

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.

Rating Above the Sovereign

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+'.

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