

Texas Water Development Board

State Revolving Fund Program

New Issue Summary

Sale Date: The bonds are expected to price via negotiation around the week of Oct. 11.

Series: \$413,550,000 State Revolving Fund (SRF) Revenue Bonds, New Series 2021

Purpose: 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.

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 Ratings' cash flow modeling demonstrates that Texas Water Development Board's (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.

Ratings

New Issue

\$413,550,000 State Revolving Fund, New Series 2021 AAA

Outstanding Debt

State Revolving Fund Revenue Bonds AAA

Rating Outlook

Stable

Applicable Criteria

State Revolving Fund and Municipal Finance Pool Program Rating Criteria (September 2021)

Related Research

Fitch Rates Texas Water Development Board's Series 2021 State Revolving Fund Revenue Bonds 'AAA'; Outlook Stable (September 2021)

State Revolving Fund and Municipal Finance Pool Peer Review: 2020 (December 2020)

Analysts

Tim Morilla
+1 512 813 5702
tim.morilla@fitchratings.com

Major Parkhurst
+1 512 215 3724
major.parkhurst@fitchratings.com

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.

Largest Borrowers

Borrower	Outstanding (\$)	% of Portfolio
City of Houston	557,490,000	11.7
North Texas Municipal Water District	496,535,000	10.4
San Antonio Water System	298,285,000	6.3
Pearland	278,005,000	5.8
Dallas	257,950,000	5.4
Trinity River Authority	145,805,000	3.1
Arlington	109,125,000	2.3
Fort Worth	108,945,000	2.3

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	9/9/21
AAA	Affirmed	Stable	4/7/20
AAA	Affirmed	Stable	2/15/19
AAA	Assigned	Stable	3/7/18

Largest Borrowers

Borrower	Outstanding (\$)	% of Portfolio
McAllen	92,360,000	1.9
Granbury	80,435,000	1.7
Total	2,424,935,000	50.9

Source: Fitch Ratings, TWDB.

Strong Program Management, Underwriting and Management

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.

Coronavirus Impact Limited

The program's performance through most recently available data has not indicated impairment as a result of the coronavirus pandemic. The TWDB continues to monitor the spread of the coronavirus across the state and management intends to work with the local governments and state agencies to address any economic impacts.

Series Comparison

	2020 'AAA' Median ^a	TWDB Ser. 2021	TWDB Ser. 2020	TWDB Ser. 2019	TWDB Ser. 2018
Revolving Fund Type	–	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF
Purpose	–	Financing	Financing	Financing	Financing
Total New Issuance (\$ Mil.)	–	413.6	481.7	267.2	344.4
Fitch Rating	–	AAA	AAA	AAA	AAA
Rating Date	–	9/9/2021	4/7/2020	2/14/2019	3/7/2018
Fitch Default Tolerance Test (%)					
Minimum Default Tolerance Rate	100.0	100.0	100.0	100.0	100.0
Less: Fitch PSM Stress Hurdle	31.7	28.4	33.5	31.2	30.3
Rating Stress Cushion	68.3	71.6	66.5	68.8	69.7
Financial Structure (\$ Mil.)					
Total Outstanding Program Bonds	458.0	1,214.6	983.8	555.6	508.4
Program Assets (\$ Mil.)					
Total Pledged Revenues Excluding Reserves	1	4,983	4,478	4,527	3,065
Total Pledged Revenues Including Reserves	1,592	4,983	4,478	4,527	3,114
Debt Service Reserve Fund Balance	3.3	0.0	0.0	0.0	0.0
Program Liabilities (\$ Mil.)					
Total Debt Service	560	1,781	1,522	872	777
Financial Ratios					
Projected Minimum Annual DSC (x)	1.6	2.4	2.3	3.4	3.4
Program Asset Strength Ratio (x)	2.1	2.8	2.9	5.2	4.0
DSRF as % of Bonds Outstanding	3.3	0.0	0.0	0.0	0.0
Portfolio Summary					
No. of Borrowers	203	341	318	297	279
Implied WA Pool Rating (PSM)	BBB	BBB+/BBB	A-	BBB+	A-
WA Life (Years)	17.1	24.8	24.0	22.6	23.4
% Investment Grade	72.9	81.5	86.4	84.6	87.3
Top 10 Concentration (%)	53.8	50.9	52.1	54.3	59.1
Largest Single Borrower (%)	15.8	11.7	15.8	17.5	16.8
Largest Borrower Composite Rating	AA	AA	AA	AA	AA
Security Pledge Distribution (%)					
Pledge 1	–	Utility Revenues 77.9	Utility Revenues 76.4	Utility Revenues 61.4	Utility Revenues 83.5
Pledge 2	–	GO and Utility 21.5	GO and Utility 22.6	GO and Utility 37.0	GO and Utility 16.5
Pledge 3	–	GO 0.6	GO 1.0	GO 1.6	–

^aBased on data collected for Fitch's peer review (through Nov. 30, 2020). WA - Weighted average.
Source: Fitch Ratings, TWDB.

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