S&P Global
Ratings

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Summary:

Fort Worth, Texas; Water/Sewer

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Credit Profile		
US$148.51 mil wtr and swr sys rev rfdg and imp bnds ser 2021 dtd 06/01/2021 due 02/15/2051		
Long Term Rating	AA+/Stable	New
Fort Worth WS		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Fort Worth, Texas' $148.51 million series 2021 water and sewer system revenue refunding and improvement bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the city's revenue debt outstanding. The outlook is stable.

Bond proceeds will fund various projects in line with the city's capital improvement plan and refund the series 2011 water and sewer system revenue refunding and improvement bonds for interest savings. Net waterworks and sewer system revenues secure the payment of debt service. Bond provisions include a rate covenant of 1.0x annual debt service and additional bonds test of either 1.25x average annual debt service or 1.1x maximum annual debt service of all bonds outstanding after issuance of additional new-lien bonds. Although the city has a debt service reserve fund for parity obligations, the 2021 bonds will not be additionally secured by this reserve.

Credit overview

In our view, Fort Worth benefits from high growth rates and its position as a wholesale water provider, as well as strong management practices that contribute to stable operations, significant cash on hand, and strong coverage levels supportive of the rating. Despite the challenges of the pandemic-driven recession and recent winter storm, the city has remained financially stable, and used these challenges as learning opportunities to continue improving its planning and emergency procedures. For the utility system, the winter storm led to boil-water advisories as power outages caused pressure loss in parts of the system. Management reports there are no material financial impacts expected from the storm, however, the event highlighted the need to increase investment in replacement of cast iron pipes and certain critical equipment, which will be factored into the city's capital improvement planning.

The city has a capital plan of about $1.1 billion for infrastructure improvements for the system over the next five years (2022-2026), of which an average of 45% will be cash funded. Despite these plans, we expect rates will remain affordable given growth in the customer base, offsetting the need to rate increases alone to support debt service.

The enterprise risk profile reflects our view of the following:

- An economic base that is broad and diverse, given the city's position within the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA). We expect growth will continue to outpace the nation, supporting a diversified customer base and falling unemployment levels, which averaged slightly below state and national levels in 2020;

- Combined water and sewer bill of $71.59 based on our assumption of 6,000 gallons, which we consider affordable when benchmarked against both median household effective buying income at 99% of the national average, and Tarrant County's poverty rate of 10.2%, even though the rate is higher than median levels of peers. We expect rates will remain affordable despite capital plans, given expected growth to the utility's customer base, as well as offsetting borrowing with pay-as-you go capital spending; and
- Operational management practices we generally consider to be good for comparable utilities. The city is a regional leader in water conservation and drought management and has a robust risk mitigation plan in place, including for cybersecurity. Rates are reviewed internally annually, and in accordance with uniform wholesale agreements, the utility commissions an external cost-of-service study for wholesale water and wastewater on a three-year rotating schedule.

Our view of the financial risk profile reflects the system's:

- Very strong all-in coverage of 2.71x in fiscal 2020, when including allocated portions of debt for the Tarrant Regional Water District (TRWD) and the Trinity River Authority-Denton Creek Regional Wastewater System, which supports the rating. Based on our forecasts, we anticipate coverage will decline somewhat but remain above 1.5x during our outlook horizon;
- Extremely strong liquidity averaging about $120.1 million across the past three fiscal years. Days' cash on hand of operating expenses was 332 in fiscal 2020, which is well above the city's liquidity target of 150 days. Officials anticipate cash will increase in fiscal 2021 due to strong results, but that growth will moderate given the level of capital expected to be cash funded;
- Current parity debt outstanding of $1 billion following this issuance, resulting in a moderate debt-to-capitalization ratio of 34.2% that we expect should remain relatively level given the city's plans to issue new-money revenue bonds in amounts about equal to annual amortization, while cash funding a large part of its capital program. Even if the ratio increases somewhat, we do not expect it will have a material impact on the system's creditworthiness given overall credit fundamentals;
- Financial management practices and policies we view as strong for comparable utilities, including a formal debt management policy, annual updates to the systems' rolling five-year capital plan, liquidity policy of maintaining reserves equivalent to at least 150 days of operating expenses, and at least monthly budget updates to the governing body; and
- Weakening our view of an otherwise strong financial risk profile is the city's weak pension funded ratio of 50.6% at the end of fiscal 2020, without a plan in place that we view as sufficient to address the liability in a timely manner given that forecasts do not indicate fully funding the actuarially determined contribution during the next five years. While the utility system's liability accounts for only about 14% of overall postretirement benefit liabilities, we believe there could be negative spill-over effects should the city be unable to take necessary steps to address the liability.

The stable outlook reflects our expectation that Fort Worth will adapt to changing conditions and fund its capital program while maintaining coverage and cash position based on its track record and forward planning.

Environmental, social, and governance (ESG) factors

In our opinion, the system is addressing environmental risks by maintaining environmental and regulatory compliance, including standards of the Texas Commission on Environmental Quality. Furthermore, the city's demonstrated willingness to improve risk management following weather-related events such as the recent winter storms shows an ability to adapt to changing climate conditions. Social risks, including those related to COVID-19, are in line with the sector. Fort Worth saw limited financial impacts from the pandemic and we expect these risks will continue to decline as larger percentages of the population get vaccinated. S&P Global Ratings believes that economic recovery from the COVID-19 pandemic and associated recession will begin to accelerate, but with unemployment remaining above pre-pandemic levels until 2023. (See "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021, on RatingsDirect). In addition, we view the system's governance factors as in line with those of other similarly rated water and sewer utilities, and view the board's rate-setting autonomy as credit supportive.

Stable Outlook

Downside scenario

We could lower the rating should coverage and liquidity deteriorate to levels we view as no longer supportive of the current rating. We could also lower the rating if there is an increased reliance on the utility's surplus net revenues by the general government, either to subsidize general fund operations or to shore up fiduciary funds.

Upside scenario

A higher rating would be predicated in large part on sustained improvement in addressing the pension liability while still maintaining strong operations and extremely strong all-in coverage and liquidity metrics.

Credit Opinion

Fort Worth, with about 270,000 retail customers, serves a deep and diverse customer base with a total population estimate of 1.2 million, including Fort Worth and more than 30 communities in much of Tarrant County. Wholesale revenues provide about 20% of total budgeted operating revenues. Despite that, the system's 10 largest retail customers contributed less than 5% to operating revenues, indicating no revenue concentration. The city also serves as a regional hub and anchor of the Dallas-Ft. Worth-Arlington MSA, providing a diverse employment base.

The city purchases raw water from TRWD before treating it at five city-owned water treatment plants with a combined 500 million-gallon-per-day (mgd) treatment capacity. Capacity is more than sufficient to meet peak day demand, absent extreme events. The larger focus is on enhancing the long-term water supply. The city has had water conservation-oriented rates, outdoor watering and public education programs, and other resource management policies for years. TRWD projects its water supplies will be sufficient to meet needs even under drought conditions through 2040 following completion of the $1.41 billion integrated pipeline project, a joint venture with Dallas to move water from a reservoir southeast of the region. The city generally accounts for 55%-60% of TRWD's annual operating revenues. Given the magnitude of the district's capital commitments, Fort Worth is anticipating wholesale water costs will continue increasing substantially.

The city's wastewater system is also an operational strength, in our view. Its main treatment plant has 166 mgd of rated capacity, although a portion of the waste is sent to the Trinity River Authority's (TRA) 11.5-mgd-capacity Denton Creek and Central Regional facilities by way of a contractual commitment to TRA. The facilities meet the city's average flow.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020