

Rating Action: Moody's affirms Brownsville Public Utilities Board, TX's A2 revenue bond rating; outlook stable

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New York, March 09, 2021 -- Moody's Investors Service has affirmed Brownsville Public Utilities Board, TX's (BPUB) A2 revenue bond rating. The outlook remains stable. BPUB has about \$272 million of revenue bonds outstanding, all of which is senior except for \$575,000 of junior lien revenue bonds.

RATINGS RATIONALE

The affirmation of BPUB's A2 revenue bond rating considers the severe disruptions caused by the unprecedented winter storm from 14 February to 19 February 2021. Although BPUB's generation resources were generally available and producing during the weather event, the utility incurred unbudgeted natural gas and power purchases, resulting in an estimated shortfall of \$32.1 million. BPUB took proactive measures to ensure its natural gas plants remained available and producing during the event and purchased additional fuel in advance of the storm based on the severe weather forecasts.

Adding to the shortfall, power suppliers in the market served by the Electric Reliability Council of Texas (ERCOT), including BPUB, were "short-paid." That is, BPUB and other suppliers were paid less than what they were owed for generation due to a market deficiency of \$1.66 billion, net of other ERCOT deposits, because some power purchasers were unable to make full payments. BPUB received \$7.8 million less than what they were owed due to the deficiency. Under current rules, the timing of the recovery for the short-pay will occur over an extended period, and BPUB will still experience a modest haircut as these costs are socialized in the market. We consider the weather event in Texas as an environmental and social risk under our ESG framework, given customers throughout the state had intermittent and in some cases lost access to basic services such as electricity, water or heat during the winter storm. BPUB's management practices, evidenced by its strong financial position and proactive measures to minimize the financial impact of the storm, also demonstrate good governance.

BPUB plans to fund the shortfall through a combination of short-term borrowing and the use of cash reserves. As of fiscal 2020, BPUB had \$197 million of available cash and investments, representing a very strong 510 days cash on hand. In addition, BPUB's tax-exempt commercial paper program provides additional liquidity of up to \$100 million. BPUB currently has \$11 million of commercial paper notes outstanding, leaving \$89 million of available capacity. BPUB also has \$272 billion of revenue bonds outstanding. As such, the \$39.9 million shortfall, including the ERCOT short-pay, is manageable when considering BPUB's strong liquidity and limited leverage.

Both the senior lien debt and the junior lien are rated A2 even though the junior lien is subordinate to the senior debt owing to the very small amount of junior lien relative to the senior lien debt, resulting in there being no appreciable difference in BPUB's consolidated debt service ratio and its senior debt service coverage.

RATING OUTLOOK

The stable outlook reflects our expectation that BPUB will be able to cover the shortfall, including the ERCOT short-pay, while maintaining a strong financial position and limiting any rate shock to customers.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained economic expansion and median income growth
- Improved rate competitiveness closer to state averages

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Deterioration of financial performance such that fixed obligation charge coverage (FOCC) ratio and days cash on hand fall below 1.5x and 300 days on a sustained basis

LEGAL SECURITY

The bonds are secured by the net revenues of the combined utility system, including electric, water and wastewater revenues. The rate covenant requires net revenues to be at least 1.25 times senior lien debt service, 1.1 times junior lien debt service, and sum sufficient for subordinate and inferior lien debt service. The additional bonds test is 1.25 times maximum annual debt service and 1.25 times average annual debt service on junior and subordinate bonds. The senior lien debt service reserve fund requirement is the lesser of the traditional 3-prong test (maximum annual debt service, 10% of bond proceeds or 125% of average annual debt service). The junior lien debt service reserve fund requirement is also the lesser of the 3-prong test and is cash funded.

PROFILE

BPUB is wholly owned by the City of Brownsville (Aa3) and provides electric, water, and wastewater utility services to the City of Brownsville and surrounding areas. The system operates a fully integrated electric generation, transmission, and distribution system, and approximately 96% of the city and all of the developed areas of the Port of Brownsville are within its singly certified area.

The Public Utilities Board was formed in 1960 to provide electric, water, and wastewater services to its customers in the Brownsville area. Pursuant to the City's Charter, management, operation, and control of the City's combined water, wastewater, and electric utilities system is delegated to the Public Utilities Board. The Public Utilities Board is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member being the City's Mayor serving Ex-officio.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure Methodology published in August 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1170209 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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