FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Brownsville PUB, TX's Utilities System Bonds to 'A'; Outlook Stable

Wed 29 Oct, 2025 - 5:19 PM ET

Fitch Ratings - Austin - 29 Oct 2025: Fitch Ratings has upgraded the rating on the following bonds issued by the city of Brownsville, TX on behalf of the Brownsville Public Utilities Board (BPUB) to 'A' from 'A-':

--Approximately $255.2 million utility system revenue bonds, series 2005A, 2008, 2013A, 2016, 2018, 2020, 2020A, 2022, and 2022A;

--Bank note rating for $100 million subordinate lien CP program, series A.

Fitch has also upgraded the rating on approximately $3.7 million water supply contract revenue refunding bonds, series 2012 issued by the Southmost Regional Water Authority (SRWA) to 'A' from 'A-'.

Fitch assesses the BPUB's Standalone Credit Profile (SCP) at 'a'.

The Rating Outlook on all bonds is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Southmost Regional Water Authority (TX)		

Southmost Regional Water Authority (TX) /Water Supply Contract Revenues/1 LT	LT	A Rating Outlook Stable	Upgrade	A- Rating Outlook Positive
Brownsville Public Utilities Board (TX)				
Brownsville Public Utilities Board (TX) /Electric System Revenues - 3rd Lien/3 LT	LT	A Rating Outlook Stable	Upgrade	A- Rating Outlook Positive
Brownsville Public Utilities Board (TX) /Electric System Revenues/1 LT	LT	A Rating Outlook Stable	Upgrade	A- Rating Outlook Positive

VIEW ADDITIONAL RATING DETAILS

The upgrade reflects strong financial performance of the combined utility system during the past two years following a sizable rate decrease for the electric system and a series of annual rate increases for the water and wastewater systems to support increased capital spending. As capital spending increases over the near term, cash flow to support the spending should result in coverage and leverage levels supportive of the 'A' rating. The rating upgrade considers Fitch's expectation that operating margins and key ratios will be in line with BPUB's approved budget and five-year financial forecast and at levels that support the 'A' rating.

BPUB's improved operating margins are primarily due to substantial water and wastewater rate increases implemented during the past two years. The rate increases are part of the utility's broader five-year rate plans approved by BPUB's city commission for the water and wastewater systems, which commenced in June 2022. Fitch's ratings further consider the lower operating risk of the water and wastewater operations, which allows the utility to accommodate slightly higher leverage levels than electric utility peers that operate solely with generation and retail electric service business lines.

The SRWA rating is linked to BPUB's rating, given its 92.91% ownership share in SRWA, and the unconditional take-or-pay contract provision with an unlimited step-up requirement if other participants are unable to meet their respective obligations.

SECURITY

The BPUB bonds are secured by a lien on net revenues of the utility's combined utilities system, which includes electric, water and wastewater services. BPUB has a small amount (less than $1 million) of junior lien bonds outstanding (not rated by Fitch) that are payable from net revenues of the combined system after satisfying senior lien debt service. The CP notes are payable from a third lien on net revenues.

SRWA bonds are secured by water supply contract payments with five participating customers, of which BPUB is the largest, with a 92.9% share of the desalination project financed by SRWA and operated by BPUB. The contract payments to SRWA are unconditional obligations and paid as an operating expense, senior to BPUB's debt service.

KEY RATING DRIVERS

Revenue Defensibility - 'a'

Demand for utility services remains strong and stable, driven by continued customer growth, but income levels and unemployment rates across the service area remain weaker than the national average, constraining Fitch's revenue defensibility assessment at 'a'.

The utility has the independent ability to raise rates, which Fitch views favorably. While rates are competitive in relation to the state average, weaker income levels challenge the utility's affordability metrics. BPUB is currently undertaking an electric cost of service study and management anticipates it will present its board with an electric rate plan in mid-2026 based on the forthcoming results of the study.

BPUB is also towards the end of implementing a five-year water and wastewater rate plan, which commenced on June 1, 2022. The rate increases were based on BPUB's rate study, which aimed to ensure rates fully recovered the cost of services provided. The final increases will be implemented on Jan. 1, 2026. Cash flow from the rate increases, which range from 4% to 9% annually, partially funded BPUB's expanded capital improvement plan.

Along with the rate increases, BPUB also began charging a monthly fee to all water customers to partially fund the Resaca Restoration Project, a dredging project aimed at restoring the utility's waterways. Funds received from the Resaca fee are matched with federal funding.

Operating Risk - 'a'

Fitch assesses BPUB's operating risk profile at 'a', reflecting the utility's low operating cost burden, which has averaged 12.5 cents per kilowatt hour (kwh) over the past three years. The operating cost burden declined in fiscal 2024 with lower market energy and natural gas prices.

Fitch believes BPUB's neutral operating cost flexibility is somewhat tempered by the utility's reliance on market purchases to meet its projected peak system demand. Economic purchases provided approximately 20% of power supply in fiscal 2024 but also include economic purchases at times when market energy prices are lower than BPUB's owned generation costs. BPUB's owned generation and power purchase agreements provided the utility with 311MW of capacity in fiscal 2024, which is slightly below its fiscal 2024 peak load of 317MW. Demand is projected to rise to 321MW over the next five years under management's baseline scenario. BPUB's current resource plan does not include resource additions.

BPUB's capex is expected to remain elevated over the next five years as the utility undergoes several electric, water and wastewater system rehabilitation projects. Projects include electric substation and transformer improvements and advanced metering infrastructure for the electric and water utility system, as well as general maintenance and rehabilitation projects. Approved combined system capital improvements over the next five years (2026-2030) are estimated at $280 million, higher than the past five-year historical spend of $163 million.

Operating cash flow has historically funded for approximately 50% of BPUB's capex, although recent water and wastewater rate adjustments are expected to increase cash funding of capex to over 70% over the next five years as the utility continues to implement its five-year water and wastewater rate plan. BPUB also plans to use state loans, grants and contributions to supplement its capital improvement plan funding sources.

BPUB maintains adequate water supply, and treatment capacity remains sufficient at the utility's water and wastewater facilities.

Financial Profile - 'a'

BPUB's financial metrics were strong in fiscal 2024 as operating cash flows remained robust. Financial metrics have consistently outperformed the utility's budget in each of the past three years as BPUB's wholesale sales exceeded projections and actual capex remained substantially lower than budgeted.

Water and wastewater operating revenues have grown notably as the utility continued to implement its five-year water and wastewater rate plan. Fitch-calculated coverage of full obligations (COFO) has remained above 1.6x over the past three years.

BPUB's improved operating cash flows partially funded the utility's capital plan. The utility also used its cash reserves to finance its capital expenditures, which has contributed to the utility's declining liquidity. Nonetheless, BPUB's days cash on hand remains sufficient at 118 days cash on hand in fiscal 2024, or $57.2 million.

Fitch's forward-looking scenario analysis considers the potential trend of key ratios in a base and stress scenario over a five-year period. The stress scenario is designed to impose an electric load decline in the first two years from base case levels and evaluate potential variability in projected key ratios. Water and wastewater revenues are not stressed. The scenarios are informed by BPUB's 2025 five-year forecast included in the budget and planned capital spending. Management conservatively projects weaker operating cash flows over the next five years due to assumed inflationary pressures on the utility's operating and maintenance costs.

In Fitch's base case scenario, leverage is expected to remain relatively stable and trend between 6x and 7x over the five-year period. In the stress case, which serves as Fitch's rating case, leverage could exceed 7.5x in the initial three years before returning below 7.5x. Fitch assumes that BPUB would implement an additional electric rate adjustment in response to a load decline to support financial stability, leading to leverage that declines closer to 7.0x in the outyears of the rating case. COFO and liquidity remain adequate throughout the rating case and, when combined with expected leverage, support the strong leverage profile.

Asymmetric Additional Risk Considerations

No asymmetric additive risk considerations affected the rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A sustained increase in leverage above 8.5x in Fitch's rating case scenario;

-- An inability or unwillingness to sustain a utility rate plan that recovers increases in power supply or other operating costs and supports the utility's capital plan.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--A sustained decline in leverage below 7.5x in Fitch's rating case;

--Maintenance of a low electric operating cost burden.

PROFILE

BPUB is a component unit of the city of Brownsville, TX. BPUB operates a combined utility system that provides electric, water and wastewater services to residential and commercial customers within the city and in certain areas of Cameron County outside of the city limits. BPUB serves about 54,000 electric customers and about 56,000 water and wastewater customers. Utility system assets are owned by the city but operated, maintained and managed by BPUB.

Combined system revenues were comprised of approximately 71% electric revenues, 16% water revenues and 13% wastewater revenues during fiscal 2024. Each of the utilities included in the combined system is financially self-supporting and not reliant on transfers from other funds.

BPUB maintains a 92.91% ownership share in SRWA's assets. The five participants in SRWA, including BPUB, have an unconditional obligation to fund SRWA's operating and maintenance costs and debt service obligations on outstanding contract revenue bonds. An unlimited step-up provision in the event of nonpayment by another participant effectively links SRWA's credit quality directly to that of BPUB.

Fitch considers the combined utility to be a related entity of the city of Brownsville, given the organization of those operations as enterprise funds of the city and the city's oversight, including rate setting. The rating on the utility revenue bonds is not constrained by the credit quality of the city. However, as a result of being a related entity, the rating could become constrained in the event of a very material decline in the general credit quality of the city.

Updated U.S. Environmental Protection Agency (EPA) PFAS and Lead Regulations

The EPA's enhanced focus on lead and copper lines and per- and polyfluoroalkyl substance (PFAS) contaminants has led to the finalized Lead and Copper Rule Improvements (LCRI) along with specific testing requirements for PFAS. (However, recent EPA announcements suggest the testing and treatment requirements for PFAS could change.)

BPUB has tested for PFAS contaminants and will, after analyzing the data, develop a plan to evaluate any treatment or operational updates that may be needed. Regarding the LCRI, the system completed the required service line inventory, and no lead service lines were identified, and the system is working with a contractor to identify any remaining pipes classified as "unknown."

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 10 Jan 2025) (including rating assumption sensitivity)

U.S. Public Power Rating Criteria (pub. 24 Feb 2025) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.1.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Brownsville (TX)	EU Endorsed, UK Endorsed
Southmost Regional Water Authority (TX)	EU Endorsed, UK Endorsed

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