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## Two for Texas: Public Finance Agency, Water Board Step Up With Nearly \$500M

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By [Richard Williamson](#)

DALLAS Texas agencies will issue nearly \$500 million of debt in separate deals beginning today.

The Texas Water Development Board leads off with \$258 million of subordinate-lien revenue bonds that carry top ratings from all three credit agencies.

The Texas Public Finance Authority will follow in mid-July with \$225 million of general obligation bonds that include a \$162 million refunding and \$57 million of new money. The debt carries ratings of AA from Standard & Poor's, Aa1 from Moody's Investors Service, and AA-plus from Fitch Ratings.

The TPFA, which two weeks ago issued \$15.5 million for Midwestern State University in Wichita Falls, sees mid-July as a likely target for issuance because it will be well beyond the July 4 holiday and the Federal Reserve's rate-setting session, said executive director Kimberly Edwards.

The authority's deal will be led by Piper Jaffray & Co., with Estrada Hinojosa & Co., JPMorgan, Morgan Keegan & Co., Morgan Stanley, RBC Capital Markets, Siebert Brandford Shank & Co., and Stone & Youngberg LLC as co-managers.

Coastal Securities serves as financial manager on the upcoming sale.

The TPFA deal will include current refunding of 1998 bonds and new money for maintenance projects at the Texas Department of Criminal Justice and the Department of Public Safety.

First Southwest Co. serves as financial adviser on the deal.

The Texas Water Development Board's revenue bonds are fixed-rate debt and reimburse the agency for loans already provided to water utilities across the state. Morgan Keegan is lead underwriter on the issue. The TWDB's top credit rating comes not only from the strength of the board and the state, but the portfolio of credits represented by the borrowers.

"Seventy-nine percent of our portfolio is rated," said Nancy Banks Marstiller, development fund manager at the board. "Our portfolio is highly rated, and 65% of our loans are insured."

Turmoil in the bond insurance market has not hurt the creditworthiness of the portfolio, because the board looks through the enhanced ratings to the underlying ratings, according to Marstiller. The two largest borrowers are Houston with 24% of the portfolio and the Trinity River Authority with 18%, she said.

However, problems in the insurance industry the latest being last week's downgrades of Ambac Assurance Corp. and MBIA Insurance Corp. could muddy the market for today's issuance by increased supply due to selling, says Jeffrey Timlin, portfolio manager for Sage Investments in Austin.

"It's going to get hurt because it's going to take the ride along with everyone else,"

Timlin said of the TWDB deal. "What we're really seeing is a repricing of the market due to renewed problems in the insurance industry. You're going to see a lot of forced liquidation."

Nevertheless, he added, the high unenhanced ratings of the Water Development Board should create ample demand for the debt.

"The triple-A names on their own are somewhat scarce," Timlin said. "Now people tend to be holding onto that paper a little more."

The TWDB had roughly \$2.4 billion of bonds outstanding as of March 1. The agency secures nearly \$1.5 billion of state-revolving loan fund debt outstanding, including debt that backs the bonds selling today.

The board's pool of funds for local utilities comes from 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," Standard & Poor's analysts wrote. "Based on the portfolio's current credit composition and expected loan commitments to date, debt service coverage from loan repayments is well in excess of our coverage requirements for AAA-rated state-revolving fund programs.

"The portfolio's credit profile continues to strengthen as evidenced by the lessening concentration of uninsured Houston loans," the report continued. "In addition, the percent of the portfolio that consists of AAA-rated loans, including insured loans, is 32% while the percent of the portfolio that consists of nonrated loans is 21%, demonstrating the board's fiscally conservative program management and commitment to maintaining a portfolio with minimal credit risk."

In rating next month's Texas Public Finance Authority deal, analysts revisited the state's GO rating and its current economy, which is still outperforming the nation's.

"The Texas economy continues to grow strongly, driven by strong energy markets, the state's important position in trade and transportation routes, and solid population growth," Moody's analysts observed. "Year-to-date, Texas' employment growth is notably robust compared to national trends: through April it has increased by 2.4% while U.S. growth is only 0.5%."

Personal income growth hit 5.8% in 2007 compared to 5.2% nationally, and Texans' average per capita income is at 96.3% of the U.S. average, ranking 21st among states. While Texas' unemployment rate is usually higher than the U.S. level, that pattern has changed as energy markets have strengthened and the national economy slowed, analysts said.

Once dominated by oil and gas extraction and production, Texas' economic base has broadened as other sectors have grown, including construction, services, and technology and computer manufacturing. While oil- and gas-related revenue accounted for about 24% of the state's tax revenue in 1980, based on fiscal 2007 collections, they are 8% of the general revenue tax collections.

"Although the Texas economy overall is now less susceptible to energy market fluctuations than it once was, currently high oil and natural gas prices illustrate that they still play an important role in the state's finances, bolstering the state economy during the early 2000s fiscal downturn when manufacturing and technology saw significant job losses, and driving much of its current growth," Moody's analysts wrote.

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