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Fitch: Hurricane Harvey Takes Aim at Texas Gulf Coast Utilities.

Fitch Ratings-Austin-25 August 2017: Texas Governor Greg Abbot's pre-emptive declaration of 30 Texas counties as disaster areas sets the stage for entities impacted by Hurricane Harvey to be eligible for federal funding and assistance from the Federal Emergency Management Agency, according to Fitch Ratings. In a disaster scenario, federal funding is significant factor in how utilities manage the fallout, both financially and operationally. The counties accounted have an estimated population of 7.5 million.

Hurricane Harvey is forecast to make land fall on the Texas gulf coast overnight Friday, likely coming to shore as a category 3 hurricane—an example of the extreme weather challenges that Texas utilities often face as very wet and very dry periods alternate.

Corpus Christi, expected to be ground zero for the impact of Hurricane Harvey, is currently under a voluntary evacuation order. However, other low lying areas in the region are under mandatory evacuation orders. For context, the last major hurricane to impact the Texas coast was Hurricane Ike in September 2008, which made landfall at the north end of Galveston Island as a category 2. Damage estimates for Ike from the National Hurricane Center were \$19.3 billion.

Fitch rated utility systems directly in Harvey's path include: Corpus Christi (combined utility system revenue bonds rated 'AA-/Stable Outlook), Nueces River Authority, TX (water revenue bonds rated 'AA-/Stable Outlook) who's rating is directly linked to Corpus Christi's combined utility rating, San Patricio Municipal Water District, TX (water revenue bonds rated 'A+/Stable Outlook) and Victoria, TX (water and sewer revenue bonds rated 'AA-/Stable Outlook). Corpus Christi could see yearly rainfall total levels in a matter of a day or two. The city of Corpus Christi combined utility system serves not only the city population (estimated at 300,000) but also provides water to several municipalities, water districts, and industries within a 70-mile radius of the city. Utility operations have exhibited signs of operational stress and management is currently in negotiations with the EPA regarding violations of the Clean Water Act. Nueces River Authority is the wholesaler water provider to the city of Corpus Christi, while San Patricio Municipal Water District serves part of the Corpus Christi MSA and purchases all its raw water from the city.

After making landfall Hurricane Harvey is forecast to stall near Victoria, which lies about 30 miles inland from the Gulf of Mexico, north east of Corpus Christi. Officials in Victoria have issued a mandatory evacuation order and the city is forecasted to receive record-breaking rainfall totals from 15 to 25 inches over a 72 hour period and up to 135 mile per hour winds that could potentially result in significant property and infrastructure damage. Depending on the future track of Harvey, other large urban regions could see substantial rainfall totals resulting in flash flooding, including Houston (senior water and sewer revenue bonds rated 'AA+/Stable Outlook), San Antonio (senior water and sewer revenue bonds rated 'AA+/Stable Outlook) and Austin (water and sewer revenue bonds rated 'AA-/Stable Outlook). Fitch will continue to monitor the situation along with the financial and operational impacts to Fitch-rated utilities and inform the markets accordingly.

For more information about Texas water and sewer utilities, please see Fitch's report, "Texas Water and Sewer Peer Review," dated Aug. 2, 2017.

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