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S&P ESG U.S. Public Finance Report Card: Texas Governments And Not-For-Profit Enterprises

Key Takeaways

E (Elevated): With a large geographic area and vast Gulf coastline, Texas is susceptible to various acute and chronic physical risks, which elevates its environmental exposure when compared to many U.S. states. Furthermore, some areas are at risk for prolonged periods of drought that can pose unique operating challenges, particularly for utilities in the state. Compounding the physical risks are federal policy recommendations for energy transition to renewable from carbon-based generation sources. The oil and gas industry has, for generations, served as a hallmark of Texas' economic development and supports core economic activity for many regions of the state. That said, the state is one the country's leaders in renewable energy, which, in our view, provides a pathway for future economic and employment opportunities in a green economy.

S (neutral): The state's significant population expansion over the last decade--the highest nominal growth in the country--positions it to maintain robust economic productivity and activity compared to its peers. Its relatively younger demographic is also unlike most other U.S. states with large dependent populations, particularly with one of the highest percentages of uninsured residents resulting in higher costs for uncompensated care and Medicaid payer mix.

G (neutral): Texas has a well-established history of developing policies and executing on plans to address emerging material risks. However, our neutral view of governance reflects previous credit pressures from the state's two largest pension systems--Teachers Retirement of Texas and Employees Retirement System of Texas--which have historically exhibited poor funding discipline, but with reform efforts and benefit changes long-term stability may improve. In addition, the severe winter event in February 2021 underscored risk management gaps related to Electricity Reliability Council of Texas' (ERCOT) oversight of the state's electric grid that may only be partially mitigated by recent legislative changes.

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23 Sep, 2021