

U.S. Municipal Bond Market

Winter Storm Uri Costs Slowly Reported by Texas Local Governments

- “Texans are angry,” said State Representative Ana Hernandez, who is the Vice-Chair of the Texas State Affairs Committee to begin yesterday’s hearings about the impact of Winter Storm Uri.
- Officials are still assessing the cost of last week’s events. The Perryman Group, a Texas-based economic research firm, is projecting the cost of last week’s storm could total \$197 billion on the low end and \$295 billion on the high end. Overall, the total price could amount to more than the impact from Hurricane Harvey (2017).
- We are beginning to see costs for local government expenses slowly reported. If this type of damage is not paid for by FEMA, federal or state relief, or insurance we expect other types of liquidity or long-term financing options could largely cover expenses.

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“Texans are Angry”

State Representative and Texas State Affairs Committee Vice Chair Ana Hernandez began her opening statement during yesterday’s joint hearing between the State Affairs and Energy Resources Committees by declaring, “Texans are angry.” For hours yesterday, Texas House and Senate committees held hearings related to last week’s storm and the lack of preparedness of the electric grid. A political and economic debate continues to brew about the appropriateness of Texas’ stand-alone grid system approach.

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Evidence is mounting against the stand-alone strategy, most notably the results from last week’s extreme weather event. It also includes the outcome from a Wall Street Journal analysis concluding that electric bills in Texas were \$28 billion higher under the deregulation approach. During yesterday’s hearings, Bill Magness, the CEO of the Electric Reliability Council of Texas (ERCOT) “avoided taking full responsibility for the outages” and sent a message to Texas lawmakers and taxpayers when he said, “Y’all made us. You should change us.” To help quell the political blowback, Texas Governor Greg Abbott said last night in an address to Texas residents, “Tragic does not even begin to describe [the suffering Texans endured]. At a time when essential services were needed the most, the system broke.” In recent days, reports have slowly trickled in about costs Texas local governments are facing as a result of Winter Storm Uri.

Record-Setting Costs for a Texas Disaster

Although experts are still patiently awaiting data that will lead to the true total cost of last week’s extreme weather event, some have been predicting the final tally could be even higher than Hurricane Harvey just a few years ago. The Perryman Group, an economic research firm, is projecting the cost of last week’s storm could total \$197

billion on the low end and \$295 billion on the high end. We did note in an earlier commentary our initial estimate of \$25-50 billion could be too low.

There are accounts of Texas local governments who are beginning to report their potential costs following last week's storm. Nim Kidd, the chief of the Texas Division of Emergency Management (TDEM) said there will be federal assistance for Texas. We expect that federal and state relief could be identified and will be a key part of making up the damage costs. A recent Austin American-Statesman article noted, "School districts, along with cities and counties, can apply for reimbursements through FEMA's public assistance program, which is designed to help local governments make up for disaster-related expenses." Insurance payments when appropriate will also contribute to the rebuild. Last week's events could even spark additional funds that could be part of federal infrastructure funding that could materialize in Washington, D.C. later this year. There could be an increase in municipal bond issuance in the state to help finance costs that are not otherwise paid for by other sources like FEMA and insurance. The economic activity from the Texas rebuild could provide a near-term enhancement to a Texas economy that was already performing well prior to the COVID-19 pandemic.

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Select Damage Costs Identified from Winter Storm Uri to Date:

San Antonio, Texas

The City of San Antonio, in disclosure released via the MSRB's EMMA database on Thursday reported some expected costs from last week's storm and concludes the city and "CPS Energy [City Public Service Board of San Antonio] currently anticipates sufficient liquidity to accommodate the 2021 Event and to address its operational and capital needs for the remainder of its current fiscal year but continues to analyze and evaluate the long-term impact on operations and its financial condition."

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Austin ISD, Texas

The Austin school district is reporting about 70% of schools in the district suffered some type of damage and that the total cost could amount to \$15 million. Austin ISD is seeking reimbursement from FEMA and will submit claims to its insurance company.

Cypress-Fairbanks ISD, Texas

The Cypress-Fairbanks ISD, or Cy-Fair ISD, serves about 100,000 students northwest of Houston. Cy-Fair reports they expect \$5-6 million of damage but most of that expense will be covered by insurance after paying a \$100,000 deductible.

Arlington ISD, Texas

Water and pipe damage could cost the school district in Arlington, Texas more than \$5 million according to an assessment by school officials.

Leander ISD, Texas

The Leander school district has about 39,000 students and is northwest of Austin. Preliminary estimates are forecasting that damages could cost about \$1 million and

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the district's insurance deductible is \$50,000.

City of Laredo, Texas

The Laredo, Texas city council approved \$500,000 from the city's Utilities COVID-19 Relief Fund and this money is expected to offer financial assistance to city residents who have been impacted by last week's weather.

Willis ISD, Texas

Willis ISD, a district serving about 7,400 students north of Houston is reporting damages that could amount to as much as \$200,000 mostly related to burst pipes.

Georgetown ISD, Texas

Georgetown ISD is located north of Austin and serves about 10,000 students. Georgetown ISD's schools have been open all this week. The district experienced limited damage, mostly to support facilities and athletic fields, and is reporting they made it through last week without major expenses.

One Third of Dallas ISD, Texas Schools Damaged

While we are not seeing numbers yet for damage to Dallas or Dallas ISD, we saw an article reporting that more than one-third of Dallas ISD schools were damaged in last week's storms. It is amounting to 131 damaged pipes by the latest count. We will be watching closely for numbers.

Texas' ERCOT-Area Public Power Utilities on 'Rating Watch Negative,' per Fitch

We also wrote on Wednesday that Texas' ERCOT-Area Public Power Utilities on 'Rating Watch Negative,' per a Fitch Rating Action.

A recent article reported that more than one-third of Dallas ISD schools were damaged in last week's storms.

ERCOT-area public power utilities are on 'Rating Watch Negative,' per a Fitch Rating Action.

Recent HilltopSecurities Municipal Commentary

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