FitchRatings

Georgetown (TX) [Utilities]

The 'AA-' rating reflects Georgetown's financial profile, which Fitch Ratings expects will remain very strong despite near-term pressure related to growth-driven capital spending and a sharp increase in planned debt issuance. The rating also reflects the very strong revenue defensibility of the utility system, the low operating risk profile of the electric system and the very low operating risk profile of the water and wastewater systems, despite their tremendous growth demands.

Fitch expects planned borrowing to fund spending needs will push the combined system's leverage ratio, measured as net adjusted debt to adjusted funds available for debt service, to about 14.0x in FY27, from 6.6x in 2024. However, Fitch expects that coverage of full obligations will remain very strong at around 1.5x and leverage ratios will return below 9.0x over time as higher demand for utility services materializes and double-digit rate increases are implemented at the water and wastewater systems to support planned spending.

While leverage above 8.0x suggests an 'a' financial profile assessment, the assessment and rating further consider the lower operating risk of the water and wastewater operations which allow the combined utility to support slightly higher leverage levels than electric-only utility peers.

Security

Georgetown's combined system revenue bonds are secured by a senior lien on net revenues of Georgetown's electric, water and wastewater services.

Public Finance
Public Power
United States

Ratings

Standalone Credit Profile	aa-

Outlooks

Standalone Credit Profile	Stable

New Issues

Utility System Revenue Bonds, Series 2025	AA–

Sale Date

The series 2025 bonds are expected to price on June 5, 2025 via negotiated sale.

Outstanding Debt

Issuer Ratings Information

Applicable Criteria

U.S. Public Power Rating Criteria (February 2025)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (January 2025)

Related Research

Fitch Rates Georgetown, TX Series 2025 Utility System Revenue Bonds 'AA-'; Outlook Stable (May 2025)

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Key Rating Drivers

Revenue Defensibility - 'aa'

High Growth Service Area with 'Very Strong' Revenue Characteristics

Georgetown's 'Very Strong' revenue defensibility is supported by revenues provided by the city's exclusive right to provide retail electric, water and wastewater sales within and around the city. Georgetown is a rapidly growing, economically thriving service area benefitting from its proximity to Austin and relative affordability. Customer growth is very high, averaging 4.5% over the last five years at the electric system and 7.8% at the water/wastewater system. Service area characteristics also include income levels above the national average and no customer concentration at either of the utilities.

Rate flexibility is very strong. The city council establishes rates locally without requiring outside approval. The electric rate structure includes a power cost adjustment (PCA) to recover variable power costs and base rates that are expected by Fitch to increase 3.5% in FY26 and 2% in FY28. Electric retail rates are 111% of the state average (11% higher) but still exhibit very strong rate affordability with the average annual electric bill accounting for only 1.6% of median household income (MHI).

Water and wastewater rates have increased substantially in recent years, and Fitch expects further increases to fund expanded supplies and treatment capacity needed to meet growth. Water and wastewater rates were increased 13.0% at the beginning of FY24 and by 11% at the start of FY25. Once the city entered into a new groundwater reservation agreement, additional rate increases of 32.75% for water and 11.25% for wastewater were implemented on April 1, 2024.

Projected water rate increases are expected to trend around 8.5% annually, while management anticipates annual wastewater increases ranging from 12% to 16%. The city also is reviewing its impact fee schedule which may reduce projected rate increases given impact fees constitute about 15% of water fund revenues. Despite the rate increases to fund growth-related capital expenditure (capex), overall charges should remain affordable for the vast majority of users and Fitch's rate flexibility assessment is expected to remain very strong.

Operating Risk - 'a'

Low Operating Costs; Large Water and Wastewater Capex

Georgetown's operating risk profile reflects the electric system's low operating cost burden of 13.8 cents per kilowatt hour (kWh) in FY24, as well as the very low operating cost burden of the water and wastewater system. The electric operating cost burden exhibited relative stability in recent years due to the utility's fixed-price portfolio of renewable purchase power agreements (PPA) used to provide the majority of its power supply.

The city has adopted a comprehensive risk management program and uses advance bilateral energy purchases and call options for the summer months to meet higher peak demand. It also factors conservative assumptions regarding its intermittent PPA resources into resource planning. Operating cost flexibility for the electric utility is considered neutral.

Electric system capital needs are moderate, with growth pressures on the system primary relating to water and wastewater capital needs. Georgetown's estimated five-year capital plan has increased significantly in the past year, totaling about $2 billion (2025-2029) up from $886 million (2024-2028) at the time of Fitch's last review. The majority of expenditures (88%) related to the expansion and maintenance of the city's water and wastewater system, including transmission waterlines and treatments plants.

However, about $740 million of projected capital spending relates to improvements for developing and delivering of additional ground water supplies. The timing and ultimate size of this investment remain subject to change as the city continues to evaluate options for securing additional water supply resources.

Financial Profile - 'aa'

Elevated Leverage Over Near-Term

Georgetown's financial profile is assessed as very strong. Leverage increased to roughly 8.3x in FY22 from 2.4x in FY21 reflecting a near tripling of the system's debt burden following the issuance of $220 million in new debt. The city has been annually issuing about $110 million to support continued capital spending growth. However, rate increases implemented to support debt service associated with the new debt led to lower leverage of about 6.6x at FYE 2024. Liquidity is neutral to the rating, with Fitch calculated coverage of full obligations (COFO) averaging above 1.3x over the past five years and $199 million of unrestricted cash, or 468 days cash on hand at FYE 2024.

Fitch's five-year forward-looking rating case expects higher spending and additional debt issuance will drive leverage to levels outside the rating category range in the near-term, potentially spiking at 14x in FY27 if as much as $1 billion issued for water supply and wastewater treatment projects in that year. However, management indicates the spending may occur on a more phased-in approach than occurring in one year and additionally, these projects will address water and wastewater growth pressures for several decades.

Capital spending beyond the current five-year period are modest. Fitch's rating case assumes that debt and capital spending for the largest water-supply projects in FY27 are phased in over three years. Given the city's position in the capital cycle, Fitch expects leverage metrics will be temporarily distorted for several years. Therefore, Fitch is also considering the city's rating case COFO, which is anticipated to approximate 1.5x by the end of Fitch's five-year rating case.

The combined nature of Georgetown's utility system and lower operating risk of the water and wastewater operations enable the utility to support slightly higher leverage and lower COFO levels than electric-only utility peers. Although Georgetown's business risk profile supports the 'AA-' rating in the context of its long-term expected financial metrics, the sharp escalation in capital spending has materially diminished headroom at the current rating. Additional unmitigated capital cost escalations or insufficient future rate adjustments could weaken the system's financial profile and pressure the rating.

Asymmetric Additive Risk Considerations

No asymmetric risk considerations were factored into the rating.

Sensitivities

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

- Sustained leverage that remains above 9.0x beyond 2029 in Fitch's rating case;
- COFO consistently below 1.5x in Fitch's rating case;
- Failure to implement planned rate increases to offset growth pressures and support growth-related capex;
- Absence of a secure long-term water supply contract in the upcoming years to meet growth.

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

- A sustained decline in leverage below 6.5x in Fitch's rating case that persists through planned growth-related capex;
- Successful execution of the water and wastewater capital plan to increase treatment capacity and finalization of an additional long-term water supply.

Profile

Georgetown is located in Williamson County in central Texas, 30 miles north of Austin, at the intersection of Interstate 130 and Interstate 35, the interstate between Dallas and San Antonio. The service area's economic growth includes residential, commercial and industrial development that are drawn to the area by the favorable transportation access, labor market, quick permitting timeline, and available utility services. The city was named the fastest growing city of its size in the U.S. in 2024.

The municipally owned utility system provides retail electric service to about 33,000 electric customers, 61,000 water customers, and 38,000 wastewater customers in and around the city of Georgetown. Electric revenue accounts for roughly 50% of the combined system revenue.

Although the electric system operates within both single-certified and dual-certified territories, a majority of the utility's customers and recent growth have been concentrated in the single-certified areas. The water and wastewater service areas represent a larger geographic area than the electric system. The water utility serves 440 square miles, a footprint that is 7x larger than the city. The need for additional water supplies and treatment capacity to meet Georgetown's high growth levels are driving the system's very large capital plan.

The city is addressing new regulations set forth by the U.S. EPA. The EPA's enhanced focus on lead and copper lines and per- and polyfluoroalkyl substances (PFAS) contaminants has led to the finalized Lead and Copper Rule Improvements (LCRI) along with specific testing requirements for PFAS. To date, no lead or copper has been found on city services, and the city continues to take samples for PFAS chemicals and monitor EPA PFAS guidance.

Fitch considers the system to be a related entity to the city for rating purposes given the city's oversight of the system, including the authority to establish rates. The credit quality of the city does not currently constrain the bond rating.

However, as a result of being a related entity, Georgetown's ratings could become constrained by a material decline in the general credit quality of the city.

Revenue Defensibility

Revenue Source Characteristics

Fitch considers Georgetown's revenue source characteristics as very strong reflecting the utility's monopolistic characteristics. Electric revenues constitute about half of Georgetown's pledged combined utility revenues, with water and wastewater revenues providing the remainder. Although a portion of the electric utility service area is multi-certified to allow Oncor and the Pedernales Electric Cooperative, Inc. to compete to serve new load growth, Fitch does not consider this a credit constraint given the limited risk of customer loss once electric service is initiated. The majority of the electric customers are within the city's singly-certified territory. The water and wastewater service areas are monopolistic and not subject to competition.

Service Area Characteristics

The rapidly growing population in the Georgetown service area is driving significantly higher demand for electric, water and wastewater services. Customer growth is fast-paced, as evidenced by the electric utility's five-year compound annual growth rate (CAGR) of 4.5% and the water utility's five-year CAGR of 7.8%. Residential customers account for about 48% of electric revenues in recent years.

Demographics across the service area are very strong. Wealth indicators for the area are above the U.S. average with median household income at 117% of the national average. Georgetown's unemployment rate was about 4.1 in 2024, 103% of the national average.

Rate Flexibility

The utility system has very strong rate flexibility. The city council approves utility rates, which are not subject to any additional regulatory approval, although the city hires an independent consultant as part of the rate review process. Georgetown conducts a cost-of-service study annually to determine appropriate cost recovery amounts and customer class considerations.

Georgetown's average retail electric rate has become increasingly competitive compared to the state average, at 11.3 cents/kWh in 2023 or 111% of the state average (11% higher). Importantly, Georgetown's average residential retail revenue per kilowatt hour was more competitive and below the state average at 12.6 cents/kWh in 2023, reflecting its concentration of residential revenue. Georgetown's rates fluctuate with purchase power costs recovered through the PCA but reflect a considerable amount of fixed price power. Georgetown's very high rate affordability, measured as the average annual residential cost of electric service divided by median household income, was 1.6% in 2023.

Water and wastewater rates are also considered competitive and affordable for over 90% of the population even after factoring in recent double digits rate increases. While upcoming adjustments still point to several years of increases, rates should still remain affordable for the vast majority of the population.

Operating Risk

Operating Cost Burden

Georgetown's electric operating cost burden, measured by total electric operating costs to total kWh sales, is low at 13.8 cents/kWh in FY24. The cost burden increased modestly from 13.3 cents/kWh the year prior but has been generally stable over the past four years. The operating cost burden includes the electric system's transfer to the City of Georgetown general fund, consistently around 7.0% of revenue.

The 2025 electric portfolio includes three long-term, fixed-price PPAs for 150 MW of solar capacity and 174 megawatt (MW) of wind capacity. Georgetown also contracts for firm energy purchases during the peak summer months, which can include an additional reserve above monthly peak load targets to protect against instances of extreme weather. Fitch expects electric costs to increase as the city serves its rapidly growing customer base, especially large load customers.

The operating cost burden on the water and wastewater utilities is considered very low. While costs have increased annually in recent years, increasing demand has kept the unit cost relatively steady. In fiscal 2023, conservation measures reduced demand and drove the cost burden higher, but the metric remained supportive of the assessment.

Operating Cost Flexibility

Operating cost flexibility is considered neutral. Although Georgetown has a concentration of power supply provided by intermittent wind and solar energy contracts, the portfolio has fuel and contract diversity. Georgetown maintains an energy risk management policy that codifies trading authority, trading sanctions, hedging and credit policies, and also manages capacity risk through staggered peak load purchases, particularly through the summer months.

The neutral assessment also reflects Fitch's view that the Public Utilities Commission of Texas and the Texas Legislature have taken meaningful steps to address the market dislocation and counterparty risks for utilities operating within the Electric Reliability Council of Texas (ERCOT) marketplace. While ERCOT may still face tight supply or outages during short-term severe weather, the operating and financial risks appear to be substantially reduced.

Environmental Considerations and Clean Energy Transition

Although Texas does not have a renewable or clean energy requirement for municipally owned electric utilities operating in the state, almost all of the city's electric loads are served through renewable wind and solar PPAs.

Capital Planning and Management

Fitch calculates Georgetown's electric utility age of plant at 12 years, which indicates moderate capital needs. Capex to depreciation is robust, averaging over 311% over the last five years and reflecting the system's rapid customer growth. Georgetown's electric five-year capital improvement program (CIP; fiscals 2025-2029) includes an estimated $244 million in planned investments. The CIP includes additional spending for distribution and transmission projects that will be needed to support the service territory growth.

Water and Wastewater System

Growth in demand across the service area and mandated upgrades required by environmental services necessitate treatment expansion and the renovation of existing facilities. Georgetown finalized its master plan in fiscal 2022 to achieve regulatory compliance and provide capacity as needed. The city currently is updating this plan to incorporate assumptions to meet future needs. The city currently anticipates total water capacity including contracts will be in excess of 78 million gallons per day (mgd) in 2025 and 100 mgd in 2026. The wastewater system serves a smaller territory and has a current capacity of 8.6 mgd with an additional 9 mgd of capacity under design. The water and wastewater system updated its IRP in 2023 to guide capital improvements. In Spring 2024, the city completed an 8.8 mgd plant expansion at its North Lake treatment plant, and construction is underway on the city's South Lake water treatment plant, which will add about 44 mgd of capacity.

Over the next several years, the city plans to diversify and stabilize its water supply, which is predominantly surface water purchased from the Brazos River Authority (BRA). In August 2023, Georgetown signed a large groundwater reservation agreement with EPCOR (A-/Stable) for groundwater from the Carrizo-Wilcox aquifer to be delivered to Georgetown from a withdrawal point in Robertson County for 70,000 acre-feet of groundwater with initial delivery in 2030. The two-year reservation was intended to provide time to negotiate a long-term supply agreement, however, no agreement has been made to date. The city also entered into a thirty-year water supply agreement with Gatehouse Water on Dec. 30, 2024 for 18,500 of groundwater and is evaluating a cost proposal from Recharge Water to deliver 34,800 acre-feet of groundwater, which would be delivered from the same pipeline from as the GateHouse Water.

Financial Profile

Financial Performance and Fitch Analytical Stress Test (FAST) Analysis

Financial performance of the utility system has historically been very strong, however future debt issuance plans are sizable. Operating margins have ranged between 7% and 13% over the past five years. The overall performance reflects the cumulative impact of very strong customer growth, relatively low, fixed power costs, the use of the PCA to adapt revenues to actual costs, and water and wastewater rate increases designed to keep pace with growth needs.

Liquidity and reserves are robust. Unrestricted cash totaled $199 million at FYE24, or 468 days on hand.

Fitch Analytical Stress Test (FAST) - Base Case and Stress Case

The FAST base case scenario represents Fitch's rating case and expectation of Georgetown's financial performance through the five-year forecast period ending in FY 29. The scenario analysis considers Georgetown's expected growth, planned water and wastewater rate increases, capital spending and debt issuance.

The city projects about $530 million in FY 26 issuance and about $1 billion in FY 27 for water supply and wastewater treatment projects. The FY 27 capital plan includes about $622 million for two phases of ground water supply investments, constituting the bulk of the spending in that year. Fitch's rating case expects this spending to extend beyond one year and assumes this capital spending and debt issuance is evenly spread over FY 27-FY 29. Given the size of expected debt issuances, leverage metrics will take several years to return to 9.0x.

However, given the one-time nature of these capital projects in the city's capital cycle, Fitch also looks to COFO. The city's substantial planned water and wastewater rate increases and sustained growth in all utility systems are expected to maintain COFO approaching 1.5x, which can support the financial profile despite the elevated leverage. Given expected rate adjustments, more modest future issuance beyond FY 27, and continued growth in funds available for debt service, leverage is expected to return back below 9.0x in FY 30.

Excluded from Fitch's leverage metric but considered as a funding source for capex in our forward base and stress cases are restricted funds for construction that are anticipated to range between $130 and $310 million through FY29. While inclusion of these funds is typically a more significant factor for stand-alone water systems, acknowledging their benefit helps support the combined utility system's capital spending, financial profile and rating.

Debt Profile

The debt profile is neutral. Georgetown's utility system debt includes $592 million in revenue bonds as of FYE24. Debt is fixed-rate, amortizing debt, structured with level debt service.

The City of Georgetown issued $48.0 million in PPFCO bonds (Combination Tax and Surplus Revenue Public Property Finance Contractual Obligation, Taxable Series 2021) to pay for its net unbudgeted energy costs during Winter Storm Uri in February 2021. The bonds are secured by a pledge of annual ad valorem taxes and a subordinate pledge of surplus revenues of the city's electric system. The debt is being amortized through 2031, but the regulatory asset created to capitalize the storm costs will be amortized over 20 years in a consistent amount of $2.4 million annually. The debt is being repaid by subordinate electric revenues collected through the PCA to recover the costs.

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.

Financial Summary

(Audited Fiscal Years Ended Sept. 30)	2020	2021	2022	2023	2024
Net Adjusted Debt to Adjusted FADS (x)	3.07	2.41	8.27	7.51	6.62
Net Adjusted Debt Calculation ($000)					
Total Current Maturities of Long Term Debt	7,660	13,194	15,577	20,332	22,327
Total Long—Term Debt	98,009	155,546	374,753	468,620	569,916
Total Debt	105,670	168,740	390,330	488,952	592,243
+Capitalized Fixed Charge — Purchased Power & Gas	82,461	77,024	82,178	81,013	79,986
+Total Pension Obligation (GASB Fitch—Adj. NPL + FASB PBO)	6,487	7,349	5,578	12,066	12,773
-Total Unrestricted Cash	107,845	170,388	157,619	173,599	198,545
Net Adjusted Debt	86,772	82,725	320,467	408,432	486,457
Adjusted FADS for Leverage Calculation ($000)					
Total Operating Revenue ($000)	143,741	153,533	167,412	178,753	203,489
Total Operating Expenses	132,242	137,714	151,761	165,646	176,901
Operating Income	11,499	15,819	15,651	13,108	26,588
Depreciation	12,743	17,573	18,754	20,266	22,093
+Interest Income	1,504	464	2,642	19,645	28,690
Amortization	-	-	2,400	2,400	-
Funds Available for Debt Service	25,747	33,856	39,446	55,418	77,371
Adjustment for Purchased Power and Gas	10,308	9,628	10,272	10,127	9,998
-Total Transfers/Distributions	9,013	10,054	11,593	13,190	16,009
+Pension Expense	1,210	966	639	2,056	2,158
Adjusted FADS for Leverage	28,251	34,396	38,765	54,412	73,518
Coverage of Full Obligations (x)	1.30	1.61	1.26	1.42	1.38
Funds Available for Debt Service	25,747	33,856	39,446	55,418	77,371
Adjustment for Purchased Power and Gas	10,308	9,628	10,272	10,127	9,998
-Total Transfers/Distributions	9,013	10,054	11,593	13,190	16,009
Adjusted FADS for Coverage	27,041	33,430	38,126	52,355	71,360
Full Obligations Calculation					
Cash Interest Paid	3,301	3,431	6,809	11,242	21,352
Prior Year Current Maturities	7,269	7,660	13,194	15,577	20,332
Total Annual Debt Service	10,570	11,091	20,003	26,820	41,684
Adjustment for Purchased Power and Gas	10,308	9,628	10,272	10,127	9,998
Total Fixed Obligations	20,877	20,719	30,275	36,946	51,683
Liquidity Cushion (Days)	329	518	440	443	468
Unrestricted Cash (days)	329	518	440	443	468
Liquidity Calculation					
+Total Unrestricted Cash	107,845	170,388	157,619	173,599	198,545
Total Liquidity	107,845	170,388	157,619	173,599	198,545
Cash Operating Expense Calculation					
Total Operating Expense	132,242	137,714	151,761	165,646	176,901
-Depreciation and Amortization	12,743	17,573	21,154	22,666	22,093
Cash Operating Expenses	119,498	120,141	130,607	142,980	154,808

Sources: Fitch Ratings, Fitch Solutions, Georgetown (TX)

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.