

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assign Baa1 to Sonterra MUD, TX's GOULT bonds, Series 2020A

14 Aug 2020

New York, August 14, 2020 -- Moody's Investors Service has assigned a Baa1 general obligation unlimited tax (GOULT) rating to Sonterra Municipal Utility District, TX's \$4.9 million Unlimited Tax and Revenue Bonds, Series 2020A. Moody's maintains the Baa1 rating on the district's outstanding general obligation unlimited tax (GOULT) debt.

RATING RATIONALE

The Baa1 rating reflects the district's moderately sized and growing tax base 40 miles north of Austin (general obligation Aaa negative), stable financial operations and reserves and average resident wealth and income. The rating also reflects the district's highly elevated debt burden with plans for further issuance and a slow principal amortization rate.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for Sonterra MUD. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Sonterra MUD changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

Moody's generally does not assign outlooks to local government credits with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Continued tax base growth
- Material increase in financial reserves
- Moderation of the district's elevated debt burden

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Contraction or diminishment of tax base growth
- Deterioration of financial reserves
- Increased debt absent corresponding tax base growth

LEGAL SECURITY

Principal and interest on the bonds are payable from a continuing, direct annual ad valorem tax upon all taxable property within the district which, under Texas law, is not limited as to rate or amount.

USE OF PROCEEDS

Proceeds from the sale of the bonds will be used to reimburse the developer for costs incurred to construct water, wastewater and drainage improvements in the district.

PROFILE

Sonterra MUD is located in Williamson County (Aa1 stable) within the extraterritorial jurisdiction of the City of Jarrell, approximately 40 miles north of the City of Austin. The district is composed of approximately 1,300 acres with 58 acres deemed not developable.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in July 2020 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

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Francisco Gonzalez
Lead Analyst
Regional PFG Dallas
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Douglas Goldmacher
Additional Contact
Regional PFG Northeast
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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