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Ratings

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Summary:

South Buda Water Control and Improvement District No. 1, Texas; General Obligation

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Credit Profile		
US$8.2 mil unltd tax bnds ser 2020 dtd 11/12/2020 due 08/01/2050		
Long Term Rating	BBB/Stable	New
South Buda Wtr Cntl and Imp Dist #1 GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
South Buda Wtr Cntl and Imp Dist #1 GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
South Buda Wtr Cntl and Imp Dist #1 GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
South Buda Wtr Cntl and Imp Dist #1 GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
South Buda Wtr Cntl and Imp Dist #1 GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
South Buda Wtr Cntl and Imp Dist #1 GO (MAC)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
South Buda Wtr Cntl and Imp Dist #1 GO (National)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'BBB' rating to South Buda Water Control and Improvement District No. 1, Texas' $8.2 million series 2020 unlimited-tax bonds. At the same time, S&P Global Ratings affirmed its 'BBB' rating on the district's unlimited-tax debt outstanding. The outlook is stable.

The bonds are payable from an unlimited-ad valorem tax levied on all taxable property within the district. Bond proceeds will be used to reimburse developers. After this issuance, the district will have about $33.8 million of net direct debt outstanding.

Credit overview

The rating reflects our view of the district's very strong debt service fund balance, low-to-moderate tax rate, and mature development status. In our view, the district's general and debt service fund balances, which we consider adequate and very strong, respectively, provide sufficient reserves to withstand a short-term decline in revenue, should current economic conditions pressure taxpayer's incomes and their ability to pay property taxes and water service fees. If the duration of an economic disruption due to COVID-19 is more prolonged, the district's economy could be affected. We will monitor the effects of the economic conditions on the district's finances and could lower the rating if available reserves decline to a level below what we consider adequate. See, "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020 on RatingsDirect) for more information.

The rating also reflects our view of the district's:

- Diverse tax base, totaling $316 million in taxable assessed value (AV), and which has grown at an average annual rate of 14%, as the district nears fully built-out status;
- Adequate available fund balance, which has declined in recent years due to the district's consistent under budgeting of capital and maintenance expenses; and
- High overall net debt burden and slower than average amortization rate.

Stable Outlook

Downside scenario

If future debt issuance, either direct or overlapping, outpaces AV growth, resulting in an elevated debt-to-AV ratio, or if the district's available fund balance declines and is sustained at a level below what we consider adequate, we could lower the rating.

Upside scenario

If the district's overall net debt as a percent of assessed value (AV) declines to levels that we consider commensurate with those of higher-rated peers, as a result of tax base growth, we could raise the rating.

Environmental, social, and governance factors

Our rating action incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we view the district's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile to be in line with our view of the sector standard.

Credit Opinion

Economy

The 409-acre district is about 16 miles south of Austin, near the city of Buda and close to the intersection of County Road 132 and Interstate 35. Interstate 35 bisects the district, which is entirely within Buda's extraterritorial jurisdiction. The district provides water, wastewater, and storm drainage services to a primarily residential community. We consider the district's development status to be mature, with about 93% of developable land containing utility infrastructure. As of August 31, 2020, development in the district included 1,158 completed single-family homes, a 264-apartment complex, and 51 homes and townhomes under construction. In addition, the district has 25.9 acres of undeveloped acres for future commercial development. The district's tax base has experienced strong growth in the past five years, with AV increasing to $316 million in 2021, with annual average growth of 14.3%. The district's tax base is diverse, with the 10 leading taxpayers accounting for 12.4% of 2021 AV. The district levies a property tax that is moderate, in our view, at 90 cents per $100 of AV. Including all overlapping entities, district residents are subject to a total property tax rate that we view as low at $3.04 per $100 of AV. The district does not anticipate AV loss, however, recessionary pressures brought on by the COVID-19 pandemic remains unknown, but the overall trajectory is expected to be positive as the district nears being fully built-out.

Finances

The district has consistently under budgeted for capital and maintenance expenditures over the last five years, which in some years has resulted in unassigned fund balance declines, including fiscal years 2018 and 2019. In fiscal 2019, the district's unassigned fund balance declined by about $400,000 to $762,526 or 37.6% of expenditures, which we consider adequate. We note that the district has $3.2 million of additional fund balance in the general fund; however, this has been assigned for an upcoming capital project, and we therefore have not included it in our available fund balance calculations. Water service fees and property tax are the primary revenue sources for the district, generating 61% and 36%, respectively, of fiscal 2019 general fund revenues. The voluntary maintenance of a debt service fund provides additional liquidity. At fiscal year-end Sept. 30, 2019, the debt service fund contained $1.8 million, or 106% of maximum annual debt service (MADS), which we view as very strong. MADS is scheduled to occur in fiscal 2034. For fiscal 2020, the district has budgeted for a $202,671 general fund surplus, and district officials anticipate ending the year with a slight surplus. At this time, the district does not anticipate any significant revenue declines due to the recession brought on by COVID-19, and we believe the district has sufficient reserves, particularly in its debt service fund balance, to withstand a short-term decline in revenue. However, we will continue to monitor the district's ability to balance operations going forward.

Debt

In our opinion, the district's overall net debt burden is high at 17.2% of fiscal 2021 AV. Amortization of the district's debt outstanding is slower than average, with 28% of the principal debt retiring within the next 10 years and all debt maturing in 2050. Most of the overlapping debt has been issued by Hays Consolidated Independent School District. After the current issuance, the district will have approximately $1 million in developer reimbursements outstanding and $48.1 million in authorized but unissued, unlimited-tax bonds. Although the district has no additional debt plans in the next two years, we expect the district's overall net debt burden to remain high in the future, given the districts slower than average amortization rate.

Related Criteria And Research

- Medians And Credit Factors: Texas Municipal Utility Districts, Feb.11,2018
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020