

# RatingsDirect®

---

## Summary:

# Headwaters Municipal Utility District, Texas; General Obligation

### Primary Credit Analyst:

Alex C Swanson, Englewood + 303 721 4323; alex.swanson@spglobal.com

### Secondary Contact:

Katy Vazquez, New York (1) 212-438-1047; katy.vazquez@spglobal.com

## Table Of Contents

---

Credit Highlights

Outlook

Related Research

## Summary:

# Headwaters Municipal Utility District, Texas; General Obligation

### Credit Profile

US\$35.0 mil unlt'd tax bnds ser 2023A dtd 12/21/2023 due 08/15/2048		
<i>Long Term Rating</i>	BBB+/Stable	New
Headwaters Mun Util Dist of Hays Cnty GO (AGM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
Headwaters Mun Util Dist of Hays Cnty GO (AGM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
Headwaters Mun Util Dist of Hays Cnty GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded

### Credit Highlights

- S&P Global Ratings raised its long-term and underlying rating (SPUR) to 'BBB+' from 'BBB' on Headwaters Municipal Utility District (MUD), Texas' bonds outstanding.
- At the same time, S&P Global Ratings assigned its 'BBB+' rating to the MUD's \$35 million series 2023A unlimited-tax bonds.
- The upgrade reflects the district's rapidly growing tax base, very strong general fund reserves, and mature development status.
- The outlook is stable.

### Security

The bonds are payable from a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the district. The series 2023A bond proceeds will be used to finance improvements to district facilities at Barton Creek and the construction of an effluent storage tank and drip irrigation fields as well as for water impact fees, engineering costs, and land purchase costs.

### Credit overview

The rating reflects the district's mature development status and very rapid tax base growth as well as its high overall net debt. The MUD consists of approximately 1,503 acres (1,053 of which are undevelopable parkland) located 20 miles west of downtown Austin. Its considerable growth in assessed valuation (AV) has been driven by its access to the Austin metropolitan statistical area (MSA) and to Dripping Springs Independent School District (ISD). We expect that the tax base will continue to expand as additional development occurs and existing properties appreciate. Management expects the district to be fully built out by 2028, with significant AV growth tied to continued development in the interim. Though we consider the district to be at a mature stage of development, we expect that additional issuance will continue as the rest of the district is built out. Accordingly, we do not expect debt to moderate

significantly in the near term.

The district has reported surpluses in the last three fiscal years, primarily due to increasing utility rate revenue. Management anticipates a surplus of around \$100,000 in fiscal 2023 (Dec. 31 fiscal year-end) despite a one-time capital outlay of around \$800,000. Given the district's absence of plans to draw down reserves in the near term, we expect that fund balances will remain very strong.

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

- Large and rapidly growing tax base that benefits from its proximity to the Austin MSA and Dripping Springs ISD – both of which demonstrate strong demand – and that we expect will continue to grow with additional residential development and appreciation of existing properties;
- General fund reserves that we expect will be maintained at very strong levels based on the district's historical performance and budget-to-actual results for fiscal 2023;
- Moderate direct and very low total property tax rates, which the district expects to maintain at current levels, though with a larger allocation to the debt service fund; and
- High overall net debt burden that we expect to remain so in the near term. Though the district has seen considerable tax base growth over the past few years, its additional debt plans reflect capital needs that we believe will continue until development is complete.

### Environmental, social, and governance

We assessed the MUD's environmental, social, and governance factors relative to its economy, management, financial measures, and debt-and-liability profile and view them as credit-neutral.

## Outlook

The stable outlook reflects our opinion that the large and growing tax base will continue to support the district's budgetary performance and very strong reserve position.

### Downside scenario

We could lower the rating if the district's reserves were to deteriorate significantly or if its debt burden were to increase to a level that we no longer view as comparable to that of similarly rated peers as a result of either debt issuances outpacing tax-base growth or of AV declines eroding the tax base.

### Upside scenario

We could raise the rating if the district's overall net debt burden were to decline to levels comparable to those of higher-rated peers as a result of sustained AV growth.

Headwaters Municipal Utility District, Texas--Key credit metrics				
Characterization	Most recent	Historical information		
		2022	2021	2020
<b>Economic indicators</b>				
AV (\$000)	507,116	340,137	192,907	125,070

**Headwaters Municipal Utility District, Texas--Key credit metrics (cont.)**

	Characterization	Most recent	Historical information		
			2022	2021	2020
Top 10 taxpayers as % of taxable value	Diverse	19.1	29.4	40.0	26.9
Status of development (%) (infrastructure)	Mature	84.6	84.7	63.2	31.5
<b>Financial indicators</b>					
Available general fund balance (\$000)			2,140	1,210	521
Operating expenditures (\$000)			1,600	1,284	1,160
Available reserves as % of operating expenditures	Very strong		133.8	94.2	44.9
Debt service fund balance as a % of MADS	Strong	89.5	133.3	120.3	107.4
Direct property tax rate (\$ per \$100 of AV)	Moderate	0.90	0.90	0.90	0.90
Total property tax rate (\$ per \$100 of AV)	Very low	2.68	2.76	-	-
<b>Debt and long-term liabilities</b>					
Overall net debt as % of market value	High	15.2	20.4	22.5	30.3

AV--Assessed value. MADS--Maximum annual debt service. MADS year: 2042.

**Related Research**

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

**Ratings Detail (As Of November 1, 2023)**

Headwaters Mun Util Dist of Hays Cnty GO (BAM)

*Unenhanced Rating*

BBB+(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.