S&P Global
Ratings

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Summary:

Headwaters Municipal Utility District, Texas; General Obligation

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Summary:

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Credit Profile		
US$35.0 mil unltd tax bnds ser 2023A dtd 12/21/2023 due 08/15/2048		
Long Term Rating	BBB+/Stable	New
Headwaters Mun Util Dist of Hays Cnty GO (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Upgraded
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Headwaters Mun Util Dist of Hays Cnty GO (BAM)		
Unenhanced Rating	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 an 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
Economic indicators					
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
Financial indicators					
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	-	-
Debt and long-term liabilities					
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.