

## CREDIT OPINION

2 September 2025



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# Palmera Ridge Municipal Utility District, TX

## Update to credit analysis

### Summary

The credit profile of [Palmera Ridge Municipal Utility District, TX](#) (Baa1) reflects a rapidly growing tax base that is favorably located near the Austin metropolitan area. The debt burden is likely to remain manageable despite plans for future debt. Finances will remain healthy but nominal and below average, however utility services are provided by the city of Leander, helping to mitigate enterprise risk.

### Credit strengths

- » Rapidly growing tax base
- » Strong income metrics
- » Healthy reserve levels, given limited operational requirements

### Credit challenges

- » Nominally small reserves
- » Limited tax base

### Rating outlook

We do not assign outlooks to local government issuers with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Decrease in debt burden below 5% of assessed value
- » Significant increase in assessed value above \$600 million

### Factors that could lead to a downgrade

- » Significant increase in leverage to about 8% of assessed value
- » Trend of operating deficits leading to weakened reserves
- » Significant contraction in the taxable value

## Key indicators

Exhibit 1

### Palmera Ridge Municipal Utility District, TX

|                                                 | 2020      | 2021      | 2022      | 2023      | 2024      |
|-------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Economy/Tax Base</b>                         |           |           |           |           |           |
| Total Full Value (\$000)                        | \$105,882 | \$128,708 | \$200,839 | \$324,718 | \$400,609 |
| Population                                      | 60,613    | 57,696    | 62,491    | 67,880    | 67,880    |
| Full Value Per Capita                           | \$1,747   | \$2,231   | \$3,214   | \$4,784   | \$5,902   |
| Median Family Income (% of US Median)           | 142.9%    | 150.7%    | 156.5%    | 158.8%    | 158.8%    |
| <b>Finances</b>                                 |           |           |           |           |           |
| Operating Revenue (\$000)                       | \$438     | \$515     | \$808     | \$1,350   | \$1,690   |
| Fund Balance (\$000)                            | \$423     | \$365     | \$426     | \$804     | \$1,385   |
| Cash Balance (\$000)                            | \$463     | \$321     | \$434     | \$812     | \$1,404   |
| Fund Balance as a % of Revenues                 | 96.5%     | 70.8%     | 52.7%     | 59.6%     | 81.9%     |
| Cash Balance as a % of Revenues                 | 105.5%    | 62.3%     | 53.7%     | 60.2%     | 83.0%     |
| <b>Debt/Pensions</b>                            |           |           |           |           |           |
| Net Direct Debt (\$000)                         | \$9,185   | \$8,965   | \$17,695  | \$17,410  | \$21,620  |
| 3-Year Average of Moody's ANPL (\$000)          | \$        | \$        | \$        | \$        | \$        |
| Net Direct Debt / Full Value (%)                | 8.7%      | 7.0%      | 8.8%      | 5.4%      | 5.4%      |
| Net Direct Debt / Operating Revenues (x)        | 21.0x     | 17.4x     | 21.9x     | 12.9x     | 12.8x     |
| Moody's - ANPL (3-yr average) to Full Value (%) | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      |
| Moody's - ANPL (3-yr average) to Revenues (x)   | 0.0x      | 0.0x      | 0.0x      | 0.0x      | 0.0x      |

Sources: US Census Bureau, US Bureau of Economic Analysis, Palmera Ridge Municipal Utility District, TX's financial statements and Moody's Ratings

## Profile

The district is located in Williamson County and is wholly within the corporate limits of the [City of Leander](#). District operations are minimal, with water and wastewater services provided by the City of Leander.

## Detailed credit considerations

The district's tax base growth will moderate after years of rapid growth. The district's assessed valuation for fiscal 2026 (September 30 year-end) totaled \$556 million, a 14.6% increase over the previous year's valuation. The district consists of 899 single family homes have been constructed, with five homes under construction and 78 vacant lots. The district has about 65 acres remaining that are developable that are expected to start ground infrastructure within the next two years.

The financial profile remains nominal though adequate, given the district's very limited operations. The fiscal 2025 budget shows a small surplus that will improve the general fund balance to above 200% of revenue but remain very nominal. Year to date results point to continued growth, when including the debt service fund, the operating fund balance is very likely to end near \$1.9 million or about 98% of operating revenue. Although below peer medians, it is strong for the credit given its limited operations. Fiscal 2026 budget is balanced.

The debt burden is manageable and will remain similar to peers. Inclusive of the Series 2025A Bonds, the debt burden will be equivalent to 5.6% of fiscal 2026 assessed valuation. The district expect to issue one or two bonds issuances, amounting to less than 10 million, over the next four years and will depend on pace of final built-out and without increasing the tax rate. Following the issuance of the bonds, the district will owe the developer less than \$10 million.

## ESG considerations

### Environmental

Environmental risks do not present a material challenge for the district. The district is located in central Texas and none of the acreage is in the 100 year flood plain.

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### Social

Income levels of the district are above average and it is favorably located in one of the fastest growing counties in the country. This reflects healthy demand for labor in the larger metropolitan area.

### Governance

Governance of the district is strong given oversight from the Texas Commission of Environmental Quality. The district is governed by a five-member board who serve four year terms. The district has an informal general fund policy to hold at least one year's worth of operating expenditures in reserve.

Texas MUDs have an Institutional Framework score of Aa, which is strong compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenue and decrease expenditures. Property taxes, one of the sector's major revenue sources, are not subject to any caps for debt service. MUDs that are considered over 95% developed, are subject to a property tax cap of 3.5% for maintenance and operations. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs specifically for debt service are generally greater than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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