

Research Update:

Headwaters Municipal Utility District of Hays County, TX Series 2025A Unlimited-Tax Bonds Rated 'BBB+'; Outlook Stable

October 3, 2025

Overview

- S&P Global Ratings assigned its 'BBB+' long-term rating [to Headwaters Municipal Utility District \(MUD\) of Hays County, Texas](#) \$3 million series 2025A unlimited-tax bonds.
- We also affirmed our 'BBB+' underlying rating on the MUD's existing general obligation debt.
- The outlook is stable.

Rationale

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 bonds will finance the engineering costs and treated wastewater drip irrigation fields, as well as cover developer interest.

Credit highlights

The rating highlights the MUD's expanding tax base, built out stage of development, and significant debt burden. Covering about 1,504 acres, it is located 23 miles west of downtown Austin. The growth in assessed valuation (AV) is largely due to new and ongoing residential, commercial, and multifamily developments; we note that the district benefits from the Austin metropolitan statistical area (MSA) and Dripping Springs Independent School District (ISD).

We expect continued growth in the tax base as new residential, commercial, and multifamily developments emerge and existing properties appreciate. Management expects that 180 single-family residential lots will be developed into completed homes over the next two years. In addition, commercial and multifamily development in the area is projected to drive significant AV growth during this period. While the district is currently built out with all infrastructure completed

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for both residential and commercial acreage out of the 618 acres available for development, 172 still do not have vertical development. This leaves the status of development built upon at 72%.

Based on audited fiscal 2024 figures, the district reported a surplus of \$1.6 million in the general fund, driven by water and sewer rate increases adopted in fiscal 2023. For fiscal 2025, the district is currently outperforming its budgeted surplus of \$416,000,

The rating also reflects our opinion of the following for the district:

- An expanding tax base and ongoing development; the MUD benefits from its proximity to the Austin MSA and Dripping Springs ISD, both of which have strong demand. We expect continued growth as new residential, commercial, and multifamily developments emerge and existing properties appreciate.
- No plans to annex additional land, and the district aims to complete the remaining 180 single-family residential lots in the next couple of years.
- Very strong general fund reserves that we expect will remain consistent based on the adopted budget.
- Management plans to maintain moderate direct property tax, although we expect an increasing allocation to the debt service fund.
- The district currently has high overall net debt, which we expect will continue in the near term, with a direct debt burden larger than that of peers. Despite considerable tax base growth in recent years, additional debt plans will likely keep the debt burden high.

Environmental, social, and governance

We assessed the MUD's environmental, social, and governance factors and view them as credit neutral on our analysis.

Outlook

The stable outlook indicates our belief that the expanding tax base and ongoing development will keep supporting the district's budget performance and strong reserves.

Downside scenario

We could lower the rating if the district's reserves significantly deteriorate or if debt issuance outpaces tax-base growth.

Upside scenario

We could raise the rating if the district's direct and overall net debt burden declines to levels similar to those of higher-rated peers.

Headwaters Municipal Utility District of Hays County, Texas--key credit metrics

	Characterization	Most recent	Historical information		
			2024	2023	2022
Economic indicators					
AV (\$000)		586,961	494,571	336,184	192,626

Headwaters Municipal Utility District of Hays County, Texas--key credit metrics

	Characterization	Most recent	Historical information		
			2024	2023	2022
Top 10 taxpayers as % of taxable value	Very diverse	9.7	19.5	19.1	29.4
Status of development (%) (infrastructure)	Built out	100.0	100.0	100.0	84.7
Financial indicators					
Available general fund balance (\$000)			3,306	1,699	2,140
Operating expenditures (\$000)			1,921	2,592	1,600
Available reserves as % of operating expenditures	Very strong		172.1	65.5	133.8
Debt service fund balance as a % of MADS	Adequate	40.9	62.8	43.8	133.3
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	2.90
Debt and long-term liabilities					
Overall net debt as % of market value	High	22.5	22.3	24.7	20.4

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

Ratings List

New Issue Ratings	
US\$3.0 mil unlt'd tax bnds ser 2025A dtd 11/25/2025 due 08/15/2050	
Long Term Rating	BBB+/Stable
Ratings Affirmed	
Local Government	
Headwaters Municipal Utility District of Hays County, TX Unlimited Tax General Obligation	BBB+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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