

CREDIT OPINION

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Leander Municipal Utility District 2, TX

Update to credit analysis

Summary

[Leander Municipal Utility District 2, TX's](#) (Baa3) credit profile benefits from a growing, albeit small tax base, valued at \$232 million as of the latest estimate. The district maintains a strong financial position, with a healthy available fund balance at 149.1% of operating revenue, with projected surpluses expected to sustain this level of reserves. The credit profile is challenged by a persistently elevated debt burden, which is expected to continue due to outstanding developer reimbursements.

Credit strengths

- » Rapidly growing tax base in the Austin metroplex
- » Strong resident income
- » Lack of pension or OPEB liabilities
- » Limited operations

Credit challenges

- » Elevated debt burden and high fixed costs with plans for future debt
- » Nominal financial reserves on a dollar basis

Rating outlook

We do not assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Continued strong assessed valuation growth resulting in sustained moderation of debt burden below 8% of full value

Factors that could lead to a downgrade

- » Material contraction of the tax base or additional issuance increasing the debt burden above 15% of AV
- » Trend of operating deficits resulting in deterioration of financial reserves

Key indicators

Exhibit 1

Leander Municipal Utility District 2, TX

	2020	2021	2022	2023	2024
Economy/Tax Base					
Total Full Value (\$000)	\$2,270	\$6,417	\$18,651	\$96,544	\$149,371

Population	525	525	525	1,138	1,453
Full Value Per Capita	\$4,323	\$12,223	\$35,526	\$83,636	\$103,294
Median Family Income (% of US Median)	169.2%	169.0%	149.8%	153.6%	153.6%
Finances					
Operating Revenue (\$000)	-	\$197	\$290	\$1,127	\$1,729
Fund Balance (\$000)	-	\$176	\$349	\$1,259	\$2,578
Cash Balance (\$000)	-	\$176	\$601	\$1,699	\$2,892
Fund Balance as a % of Revenues	-	89.3%	120.4%	111.7%	149.1%
Cash Balance as a % of Revenues	-	89.3%	207.7%	150.7%	167.2%
Debt/Pensions					
Net Direct Debt (\$000)	-	\$	\$3,485	\$8,520	\$13,090
3-Year Average of Moody's ANPL (\$000)	-	-	-	\$	\$
Net Direct Debt / Full Value (%)	-	0.0%	18.7%	8.8%	8.8%
Net Direct Debt / Operating Revenues (x)	-	0.0x	12.0x	7.6x	7.6x
Moody's - ANPL (3-yr average) to Full Value (%)	-	-	-	0.0%	0.0%
Moody's - ANPL (3-yr average) to Revenues (x)	-	-	-	0.0x	0.0x

Sources: US Census Bureau, US Bureau of Economic Analysis, Leander Municipal Utility District 2, TX's financial statements and Moody's Ratings

Profile

Leander MUD No. 2 is a rapidly developing residential district located within the City of Leander in Williamson County, approximately 30 miles northwest of Austin. Spanning 169 acres, the MUD finances road and utility infrastructure to serve the development, however all ongoing operations are conducted by the City of Leander.

Detailed credit considerations

The district's tax base will continue to grow given its favorable location in the Austin metroplex albeit at a slower rate as the district approaches full build out. Certified fiscal 2026 assessed valuation (AV) reached approximately \$211.5 million, which aligns with the Baa3 sector median and reflects a 17.9% increase from the previous year. The latest estimate of value indicates further growth to \$232 million. As of Aug. 27 2025, 162.2 acres or 100% of the developable acreage within the district has been or is currently being developed with utility facilities. The district currently contains a total of 524 developed single family lots, comprised of 513 completed homes, 0 homes under construction and 11 vacant lots. After the district constructs utility infrastructure, the assets are conveyed to the City of Leander, which then assumes responsibility for its operation and maintenance, a credit strength for the district as this reduces enterprise risk.

Financial reserves are above median and are expected to remain stable due to strong anticipated operating surpluses. The district closed fiscal 2024 (Sept. 30 year-end) with an available fund balance at 149.1% of revenue, which is above the Baa3 sector median (123%). Fiscal 2025 year-to-date results through July indicate a healthy general fund surplus of approximately \$375,231, which exceeds budget expectations. The debt service fund results show a \$1.3 million surplus which does not include the August debt service payment. Nevertheless, when accounting for debt service and bond proceeds, the debt service fund closes Fiscal 2025 with a healthy surplus of roughly \$300,000. Including both funds, available fund balance is expected to improve to approximately 178.9% of revenue. The fiscal 2026 proposed budget includes a more modest surplus, which will still maintain the district's strong financial position.

The debt burden is elevated and will remain so, as the district repays developers through additional debt issuance as taxable value grows. Including the Series 2025 bonds, the district's \$30.6 million in outstanding debt makes up an elevated 14.5% of certified fiscal 2026 AV, though it moderates slightly to 13.2% of the Sept. 2025 value estimate. Post-sale, the district will continue to owe approximately \$10 million to developers.

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ESG considerations

Environmental

The local government sector generally has low exposure to environmental risks, though the district has elevated exposure to water stress. According to Moody's ESG Solutions, the district has high exposure to water stress and wildfires, medium exposure to heat stress and low exposure to floods and hurricanes. Favorably, the State of Texas has taken action to help mitigate water stress risk within its borders by issuing general obligation debt through the Texas Water Development Board (TWDB) since the 1950s to finance a variety of water conservation and supply projects.

Social

Population will continue to grow as new homes are constructed and sold. Income levels in the area, using Liberty Hill ISD as a proxy, are above average with a median family income equal to 153.7% of the US. New home prices range from approximately \$400,000 to \$500,000.

Governance

The district is governed by a five-member board of directors, all of whom own property within the district. The directors are elected to four-year staggered terms. Although the district does not have any employees, which is typical for MUDs, the district contracts out for critical needs including bookkeeping and other financial services. The district is subject to oversight by the Texas Commission of Environmental Quality.

Texas MUDs have an Institutional Framework score of Aa, which is strong compared to the nation. 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. MUDs have no full-time employees. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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