

## Research Update:

# Liberty Hill, TX Series 2026 Wastewater Treatment Facility Revenue Bonds Assigned 'A+' Rating

January 21, 2026

## Overview

- S&P Global Ratings assigned its 'A+' long-term rating to [Liberty Hill](#), Texas' \$25.85 million series 2026 wastewater treatment facility revenue bonds
- At the same time, S&P Global Ratings affirmed its 'A+' long-term rating and underlying rating (SPUR) on the city's outstanding wastewater treatment facility revenue bonds.
- Finally, S&P Global Ratings affirmed its 'A+' SPUR on the city's outstanding water and sewer system revenue bonds.
- The outlook on both ratings is stable.

## Rationale

### Security

The series 2026 bonds and other outstanding wastewater treatment facility revenue bonds are secured by a first lien pledge on net revenue of the city's wastewater system. Bond provisions for the wastewater system are, in our view, credit neutral. The city will maintain a rate covenant at 1.25x maximum annual debt service (MADS) for all parity bonds. We also understand there is a debt service reserve fund that is held at average annual debt service but shall not exceed 10% of par, MADS, or 125% average annual debt service. The series 2026 bonds will fund construction and equipping of capital additions to the wastewater treatment facility. Including the current issuance, the wastewater system has approximately \$76.8 million in debt outstanding.

The water and sewer system bonds are separately secured by a first lien on the city's water and sewer system revenues. We understand that the city's general reserve fund will be made available to pay debt service on the bonds; however, it is not required to be maintained so long as net revenues are at least equal to 1.25x maximum annual debt service (MADS) on all parity bonds. The water and sewer system had approximately \$9.6 million in debt outstanding as of audited 2024.

### Credit highlights

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The city has undertaken a sizable capital improvement plan to build additional wastewater treatment capacity that will substantially increase its potable water supply to meet its growth needs, reduce its PFAS concentration, and reduce its phosphorus discharge into the San Gabriel River. The project is estimated to total \$154 million-\$174 million (after this issuance) and will largely be funded by the wastewater treatment system debt between now and 2030. Simultaneously, the water and sewer system are currently forecast to borrow an additional \$26.8 million over the next five years and the city is seeking additional water supplies to meet its interim needs while it completes the wastewater treatment facility project. The city is planning to raise water rates by 10.5% and both water and wastewater rates by 6.5% to provide coverage for this and the systems' upcoming issuances. We anticipate that this will generate at least strong coverage over the outlook horizon, albeit at a lower level than they have historically posted. However, we note that management will need to proactively manage rate increases while monitoring growth rates over the longer term in order to maintain credit-supportive coverage and leave room under its additional bonds tests to issue the necessary debt to complete its capital plan. Should either system run into significant cost overruns, delays, or revenue shortfalls that pressure the city's potable water resources or its ability to meet regulatory requirements, the ratings could come under pressure. Additionally, should management fail to appropriately manage rate increases in order to maintain strong and credit-supportive coverage and liquidity in both systems, we could lower one or both of the ratings. Although the water and sewer system bonds are projected to maintain stronger coverage and a smaller debt burden as compared to the wastewater treatment bonds, we believe that the capital project execution risk constrains the rating given that the planned projects are integral to the city's plan to increase its water supply.

Both systems posted extremely strong debt service coverage and reduced their reliance on connection fees over the last three years (excluding fiscal 2022, which saw significant one-time impact fee revenue). Our assessment of coverage includes transfers out for indirect cost allocations, but excludes one-time transfers for bond issuance costs and impact fee recategorization. We also include payments made by Liberty Hill to the City of Leander for treated water as a fixed charge.

The rating further reflects our view of the following:

- The systems' liquidity is very strong, with \$13.6 million, or 1,265 days' cash, in the water and sewer funds and \$31.9 million in the wastewater treatment facility fund. Management reports that the wastewater fund drew down for capital in fiscal 2025, but we estimate that available reserves would likely remain well within a range that we still consider strong.
- Leverage is significant across both systems.
- Rates, although currently affordable in the context of local incomes for combined water and sewer bills (predominately in-city customers) and combined water and wastewater bills (predominately out of city customers) at 1.8%, are likely to increase and may become elevated in comparison with those of regional peers. Sewer and wastewater rates are largely equal, and management anticipates keeping them comparable for the foreseeable future.

## **Environmental, social, and governance**

We believe that some environmental and governance risks are relevant to our credit rating analysis. We view environmental risks as heightened, given the region's susceptibility to chronic and persistent drought. The city sources its water from three groundwater wells and receives 0.5 million gallons per day of treated water through a contract with the City of Leander, originating from the 600 acre-feet of water from the Brazos River Authority Colorado Basin. While the city is

actively working on diversifying its water supply through the current treatment plant project and other interim solutions, we believe water supply is susceptible to pressure until the aforementioned projects are fully built out. Furthermore, execution on the current capital improvement program is vital for the city's renewal of its Texas Pollutant Discharge Elimination System permit (currently good through April 2029), as the additional treatment will allow the city to comply with upcoming phosphorus discharge standards.

We believe the city's social risks are neutral to our analysis, given low rates in relation to high median household effective buying income levels, compared with the national average.

We believe governance risks have improved given the management's increased capital planning, but they remain elevated given that financial planning is done largely on a year-to-year basis.

Outlook

The stable outlook reflects our expectation that management will maintain at least strong coverage such that it can comply with its additional bonds test and continue to execute on its sizable capital improvement plan. We also anticipate that liquidity will remain strong and credit supportive.

Downside scenario

If coverage declines either due to slowed growth, local pushback on rate increases, or material cost overruns, we could lower one or both of the ratings. Additionally, if construction delays or other challenges materially hinder the execution of the system's significant capital improvement plan (which is integral to both its long-term water supply needs and its water quality and pollution requirements), we could lower one or both of the ratings.

Upside scenario

Although not anticipated within the outlook horizon, if the city were to make substantial progress on its capital plan while maintaining coverage and liquidity at levels comparable with those of higher-rated peers, we could consider raising the rating.

Liberty Hill, Texas wastewater--economic and financial data

|   | Fiscal year-end |        |       |        |             |
|---|-----------------|--------|-------|--------|-------------|
|   | Most recent     | 2024   | 2023  | 2022   | Median (A+) |
| Economic data                                       |                 |        |       |        |             |
| MHHEBI of the service area as % of the U.S.         | 146.0           |        |       |        | 94.0        |
| Unemployment rate (%)                               | 3.6             |        |       |        | 3.8         |
| Poverty rate (%)                                    | 6.4             |        |       |        | 11.7        |
| Water rate (6,000 gallons or actual) (\$)           | 81.3            |        |       |        | 41.5        |
| Sewer rate (6,000 gallons or actual) (\$)           | 66.6            |        |       |        | 40.9        |
| Annual utility bill as % of MHHEBI                  | 0.8             |        |       |        | 1.3         |
| Operational management assessment                   | Standard        |        |       |        | Good        |
| Financial data                                      |                 |        |       |        |             |
| Total operating revenues (\$000s)                   |                 | 11,591 | 9,520 | 13,310 | 7,991       |
| Total operating expenses less depreciation (\$000s) |                 | 5,638  | 6,742 | 5,997  | 5,921       |

## Liberty Hill, Texas wastewater--economic and financial data

Fiscal year-end

|  | Most recent | 2024   | 2023   | 2022   | Median (A+) |
|--|-------------|--------|--------|--------|-------------|
| Net revenues available for debt service (\$000s) |             | 11,138 | 9,326  | 7,534  | --          |
| Debt service (\$000s)                            |             | 3,696  | 4,507  | 1,917  | --          |
| S&P Global Ratings-adjusted all-in DSC (x)       |             | 3.0    | 2.1    | 3.4    | 1.7         |
| Unrestricted cash (\$000s)                       |             | 31,919 | 43,766 | 17,046 | 7,687       |
| Days' cash of operating expenses                 |             | 2,066  | 2,369  | 1,037  | 564         |
| Total on-balance-sheet debt (\$000s)             |             | 76,770 | 53,130 | 25,050 | 16,465      |
| Debt-to-capitalization ratio (%)                 |             | 66.0   | 57.9   | 53.2   | 36.0        |
| Financial management assessment                  | Standard    | --     | --     | --     | Good        |

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income.  
DSC--Debt service coverage.

## Liberty Hill, Texas water and sewer--economic and financial data

Fiscal year-end

|   | Most recent | 2024   | 2023   | 2022   | Median (A+) |
|---|-------------|--------|--------|--------|-------------|
| <b>Economic data</b>                                |             |        |        |        |             |
| MHHEBI of the service area as % of the U.S.         | 146.0       |        |        |        | 94.0        |
| Unemployment rate (%)                               | 3.6         |        |        |        | 3.8         |
| Poverty rate (%)                                    | 6.4         |        |        |        | 11.7        |
| Water rate (6,000 gallons or actual) (\$)           | 82.3        |        |        |        | 41.5        |
| Sewer rate (6,000 gallons or actual) (\$)           | 66.6        |        |        |        | 40.9        |
| Annual utility bill as % of MHHEBI                  | 1.8         |        |        |        | 1.3         |
| Operational management assessment                   | Standard    |        |        |        | Good        |
| <b>Financial data</b>                               |             |        |        |        |             |
| Total operating revenues (\$000s)                   |             | 4,070  | 3,428  | 21,551 | 7,991       |
| Total operating expenses less depreciation (\$000s) |             | 3,918  | 3,212  | 2,121  | 5,921       |
| Net revenues available for debt service (\$000s)    |             | 2,538  | 2,435  | 19,688 | --          |
| Debt service (\$000s)                               |             | 891    | 716    | 488    | --          |
| S&P Global Ratings-adjusted all-in DSC (x)          |             | 1.9    | 2.1    | 19.4   | 1.7         |
| Unrestricted cash (\$000s)                          |             | 13,575 | 27,733 | 28,791 | 7,687       |
| Days' cash of operating expenses                    |             | 1,265  | 3,151  | 4,955  | 564         |
| Total on-balance-sheet debt (\$000s)                |             | 9,640  | 10,012 | 2,918  | 16,465      |
| Debt-to-capitalization ratio (%)                    |             | 19.5   | 20.7   | 6.7    | 36.0        |
| Financial management assessment                     | Standard    | --     | --     | --     | Good        |

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income.  
DSC--Debt service coverage.

Liberty Hill, TX Series 2026 Wastewater Treatment Facility Revenue Bonds Assigned 'A+' Rating

Ratings List

|  |           |
|--|-----------|
| New Issue Ratings  |           |
| US\$25,850,000 Liberty Hill, Texas, Wastewater Treatment Facility Revenue Bonds, Series 2026, dated: Date of delivery, due: September 01, 2050 |           |
| Long Term Rating   | A+/Stable |
| Ratings Affirmed   |           |
| Water & Sewer  |           |
| Liberty Hill, TX Sewer System Revenues   | A+/Stable |
| Liberty Hill, TX Water System and Sewer System Revenue   | A+/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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