S&P Global Ratings

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Research Update:

Cash Special Utility District, TX Water Revenue Bond Rating Outlook Revised To Positive On Strong Management Practices

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Overview

- S&P Global Ratings revised the outlook to positive from stable on Cash Special Utility District, Texas' water revenue bonds outstanding, and affirmed its 'A' long-term rating on the bonds.
- At the same time, S&P Global Ratings assigned its 'A' long-term rating to the district's approximately $4.3 million series 2026 water revenue bonds.
- The positive outlook reflects our view that management's practice of maintaining 1.5x debt service coverage (DSC), net connection fees, could support financial metrics we view aligned with that of higher-rated peers, despite tentative plans for additional debt.

Rationale

Security

Net revenues of the district's water system secure the bonds. We consider bond provisions credit neutral. The bonds have a rate covenant of 1.10x all-in DSC and an additional bonds test of 1.25x maximum annual debt service. Officials intend to use series 2026 bond proceeds to fund a portion of the district's capital program. As of unaudited fiscal 2025, which ended Dec. 31, 2025, the district had approximately $13.5 million in water revenue debt outstanding.

Credit highlights

The positive outlook reflects our view of management's practice and plans to support revenue margins consistent with all-in DSC above 1.5x and net development and connection fees, which it has maintained over the past four fiscal years, including for unaudited 2025. Management additionally passes through wholesale cost adjustments annually, including from Sabine River Authority (SRA) and the North Texas Municipal Water District (NTMWD), which we also view as supporting revenue stability.

Management's current capital plan totals about $19 million through fiscal 2028, which the district intends to debt finance; however, we understand that a portion of these needs are contingent on an execution of a water service agreement with the city of Greenville, which will provide 1.5 million gallons of treated water per day. Management expects the contract will be executed and implemented by calendar 2028. With total debt issuances of about $19 million in fiscal 2028, debt service is estimated to double; therefore, we believe a potential reliance on connection fee revenue could lead to financial deterioration, should management's rate increases not keep the pace with debt service costs and its goal of meeting 1.5x DSC net connection fees. S&P Global Ratings' calculation of all-in DSC treats the district's minimum take-or-pay charges to SRA and NTMWD as a fixed cost that is debt-like in nature.

The rating further reflects our view of the district's:

- Large and predominantly rural service area. We view the service area as benefitting growth stemming from the Dallas-Fort Worth-Arlington metropolitan statistical area.
- Affordable rates in the context of local incomes and county poverty rates when considering the national average, which we view as supporting the district's plans to continue adjusting rates to support capital needs.
- Unrestricted cash levels we view as healthy. We note that the district reports some of its reserve funds, including its capital and emergency fund, as restricted within financial reporting; however, portions of these funds are legally unrestricted and available for use, which we have incorporated into the rating.
- Diverse water supply, with raw and treated water provided by the SRA and NTMWD, respectively. We view district's ability to obtain additional water from its wholesalers and tentative plans to receive treated water supply from the City of Greenville in 2028, as supportive of the service areas future water needs as the service area expands.
- Lack of ongoing financial forecasting, but with performed rate studies that consider updates to capital planning and changes to cost assumptions from wholesalers, among other factors. The district reports reviewing rates at least quarterly to consider changes in anticipated costs, which we consider credit supportive.

Environmental, social, and governance

We view environmental, social, and governance risks as credit neutral. The utility is exposed to severe storms and extreme cold, with some susceptibility to periodic drought. We consider the district's drought risks as mitigated by a diverse water supply, plans to increase storage, and formalized conservation that is implemented in coordination with the district's wholesalers. The district suffered a service disruption from power outages because of the winter storm of 2021. Since then, management has installed backup generators at its facilities to prevent operational disruptions in the event of another power outage and has additionally insulated certain water lines. Management reports that it did not experience any disruptions during the winter storm referred to as Fern.

We view the system's governance and social factors as credit neutral, considering the district's credit-supportive practices, including regular rate review and an informal reserve policy of maintaining $1 million in capital funds, as well as ongoing rate affordability.

Outlook

The positive outlook reflects our view that there is a one-in three chance that we could raise the rating over the two-year outlook period, should management's coverage levels remain at least 1.5x without a reliance on connection fees, and should its unrestricted cash position remain aligned with that of higher-rated peers.

Downside scenario

We could lower the rating should management's rate-setting practices become reactive, or should management's debt needs exceed current expectations, leading to coverage levels that could decline below current targets.

Upside scenario

We could raise the rating over the two-year outlook period should we view the district's all-in DSC as likely to be sustained despite current debt plans, while unrestricted cash remains consistent with that of higher-rated peers, all other factors remaining consistent.

Cash Special Utility District, Texas--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.	90.1				86.0
Unemployment rate (%)	4.1				4.0
Poverty rate (%)	12.4				13.1
Water rate (6,000 gallons or actual) ($)	80.2				42.4
Sewer rate (6,000 gallons or actual) ($)	0.0				42.0
Annual utility bill as % of MHHEBI	1.7				1.3
Operational management assessment	Good				Standard
Financial data					
Total operating revenues ($000s)		9,022	7,976	8,291	4,663
Total operating expenses less depreciation ($000s)		5,458	5,243	5,104	3,591
Net revenues available for debt service ($000s)		6,112	5,740	4,076	--
Debt service ($000s)		1,125	1,126	1,117	--
S&P Global Ratings-adjusted all-in DSC (x)		2.8	2.7	2.2	1.6
Unrestricted cash ($000s)		7,790	4,701	8,058	3,895
Days' cash of operating expenses		521	327	576	502
Total on-balance-sheet debt ($000s)		18,245	3,090	4,105	11,076
Debt-to-capitalization ratio (%)		37.7	10.5	15.6	45.0
Financial management assessment	Good	--	--	--	Standard

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

Ratings List	
New Issue Ratings	
US$4.28 mil rev bnds ser 2026 dtd 02/15/2026 due 09/01/2055	
Long Term Rating	A/Positive

Ratings List		
Outlook Action		
	To	**From**
Water & Sewer		
Cash Spl Util Dist, TX Water System	A/Positive	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.