

Research Update:

McKinney, TX Series 2026 Water and Sewer Revenue Bonds Rated 'AA+'; Outlook Stable

April 24, 2026

Overview

- S&P Global Ratings assigned its 'AA+' rating to the City of [McKinney](#), Texas' \$32 million series 2026 waterworks and sewer system revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the city's existing waterworks and sewer system revenue bonds.
- The outlook is stable.

Rationale

Security

The net revenues of the city's water and sewer system secure the bonds. We view bond provisions as neutral, covenanting that McKinney must maintain annual net revenues equating to or exceeding 125% of the series 2026 bonds, and 110% of all annual debt service requirements.

The series 2026 bond proceeds will be used to finance various water and wastewater improvements citywide. Post-issuance, the combined system will have approximately \$330 million of utility revenue-supported debt outstanding as of fiscal year-end 2026.

Credit highlights

The rating reflects our opinion of the system's strong and diverse economy in the rapidly growing Dallas-Fort Worth metropolitan statistical area (MSA), boosting the utility's finances with consistent customer growth, which is underpinned by sound financial planning practices and a strong management team. The city's wholesale water provider, the North Texas Municipal Water District (NTMWD), has demonstrated consistent and effective asset management, proven by the percentage of unaccounted water at only 2%.

McKinney proactively updates their utility rate study annually primarily to account for increasing pass-through costs from the NTMWD. The city adopted a long-range plan for rate increases of 11%-18% for the water and wastewater system for the next three years. Rates are set in order to

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pass through increasing wholesale costs to consumers, and their debt service coverage for current and future bond issuances is expected to remain at 1.4x-1.8x through fiscal 2030. The utility plans to fund the majority of its upcoming capital improvements with bond proceeds and will be receiving grants and drawing down on cash reserves for various other projects. McKinney plans to issue \$25 million-\$40 million in water and wastewater revenue bonds over the next five years.

The water and sewer systems' five-year capital improvement program (CIP), which totals \$185 million for fiscal years 2026-2030, is primarily funding growth and expansion.

The rating also reflects our view of the system's:

- Wealthy service area that allows for rate-setting flexibility, supported by its proximity to broad and diverse employment opportunities Dallas-Forth Worth MSA;
- Ability to maintain about 1.2x all-in debt service coverage, assuming planned rate increases are implemented, including costs for future payments to the NTMWD for water supply,;
- Sizable forthcoming debt plans that will be used to support growth-driven CIP;
- Decreased operational risk given that the water system and wastewater system are distribution and collection-only; and
- Comprehensive financial policies, including a 10-year revenue and expenses forecast, annually updated rate studies, a 90-days' worth of operating expenses liquidity target, and a formal investment policy.

Environmental, social, and governance

We view environmental risks as neutral. The utility's wholesale water provider has a drought contingency plan in place to conserve water in the event of elevated drought conditions, also requiring wholesale participants, like McKinney, to complete annual conservation reports. The utility is a participant in the Texas State Water Plan, which is updated every five years, and have been given recommendations for conservation goals that will ensure sustainability amid the expansion of the population. The city has not committed any water quality violations.

Our view of social risk remains neutral. Although rates are expected to increase substantially during the two-year outlook horizon, we do not believe this will materially pressure bill affordability, given the high incomes of the service area.

The city's management team continues to demonstrate financial and operational management practices.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that the system's overall credit characteristics will likely remain consistent with historical trends, including all-in debt service coverage near levels achieved in 2023 and 2024. based on appropriate rate increases to offset increasing NTMWD costs, coupled with stability in the system's economic fundamentals and rate affordability.

Downside scenario

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We could lower the rating if rate increases or other adjustments are insufficient to return all-in coverage to levels historically stronger and consistent with the rating, after a dip to 1.1x in fiscal 2025. Downward pressure also exists if liquidity drawdowns are more than planned.

Upside scenario

We do not expect to raise the rating over the next two years because we do not expect financial metrics will improve.

McKinney, Texas--economic and financial data

	Most recent	Fiscal year-end			
		2025	2024	2023	Median (AA+)
Economic data					
MHHEBI of the service area as % of the U.S.	141				112
Unemployment rate (%)	3.6				3.4
Poverty rate (%)	5.7				10.2
Water rate (6,000 gallons or actual) (\$)	119				33.9
Sewer rate (6,000 gallons or actual) (\$)	90.5				38.6
Annual utility bill as % of MHHEBI	2.6				1
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)		163,464	152,544	137,793	41,982
Total operating expenses less depreciation (\$000s)		146,139	122,112	106,980	31,740
Net revenues available for debt service (\$000s)		34,957	51,915	44,104	--
Debt service (\$000s)		30,041	24,171	22,605	--
S&P Global Ratings-adjusted all-in DSC (x)		1.1	1.5	1.3	2.5
Unrestricted cash (\$000s)		79,406	80,471	62,642	55,536
Days' cash of operating expenses		198	241	214	650
Total on-balance-sheet debt (\$000s)		329,756	294,117	265,701	74,352
Debt-to-capitalization ratio (%)		30.9	30.4	30.2	25
Financial management assessment	Strong	--	--	--	Good

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\$32,135,000 City of McKinney, Texas, Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2026, dated: June 11, 2026, due: March 15, 2046

Long Term Rating AA+/Stable

Ratings Affirmed

Water & Sewer

McKinney, TX Water and Sewer System AA+/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

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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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