

Research Update:

Lake Kiowa Special Utility District, TX Series 2026 Contract Revenue Bonds Assigned 'A' Rating

May 6, 2026

Overview

- S&P Global Ratings assigned its 'A' long-term rating to the **Greater Texoma Utility Authority** (GTUA), Texas' preliminary \$6.6 million series 2026 contract revenue bonds issued for **Lake Kiowa Special Utility District**.
- The outlook is stable.

Rationale

Security

A first lien on the authority's net revenue derived from contract payments by the district secures the bonds. Per the contract between GTUA and the district, payments from the district to the authority are considered operating expenses of the district's waterworks system. The rating reflects our view of the district's general creditworthiness.

GTUA effectively serves as a conduit issuer, and its revenue and expenses related to the district are limited to contract payments and related debt service. The district's payments under the contract consist of monthly principal and interest amortization payments, any required reserve fund deposits, and any administrative payments. We understand that GTUA's administrative expenses for the project are related to servicing the district's debt. In addition, we understand that GTUA does not commingle funds across its various project funds. The 2026 bonds benefit from a reserve fund required to be funded at 100% of average annual debt service. The reserve fund is held with GTUA. As of fiscal 2025, the special utility district had \$8.8 million in debt outstanding.

GTUA and the district covenant to set charges and rate sufficient to cover operations-and-maintenance expenses and debt service. Additional parity bonds may be issued under what is effectively sufficiency under an additional bonds test.

Bond proceeds will fund waterline replacements, pump stations, and elevated storage facilities among other improvements to accommodate anticipated long-term population growth, ultimately providing service for an additional 25,000 connections.

Credit highlights

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The rating reflects our view of the district's primarily residential and affluent customer base, which, in our view, provides more stable cash flow than do industrial or commercial customer bases. Also, the special utility district has maintained strong all-in debt service coverage figures that have averaged 1.93x in the past three years. We expect coverage to remain robust through 2026 and then, as debt service obligations increase, weaken to about the 1.2x-1.3x range. Management's internal rate analysis supports at least 5% annual rate increases to maintain cost recovery as larger principal and interest payments follow. We will monitor the efficacy of planned rate increases to maintain health coverage.

Management's capital improvement plan focuses on aging infrastructure, namely waterline replacements as well as additional storage capacity. Multiple phases were completed recently; two more will follow and will be completed in the next five years, which will result in a completely upgraded distribution infrastructure. A limiting credit factor is the utility's smaller operational footprint (1,400 connections), which limits its economies of scale and revenue diversification.

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

- Pliant rate-raising flexibility supported by elevated household incomes despite nominally high water bills and high poverty rates in the county;
- Healthy liquidity position based on persistently high days' cash of more than 550, totaling more than \$2 million in reserves as of 2025, which is in line with management's liquidity target (\$1.5 million); and
- High leverage position with a debt-to-capitalization ratio of more than 50%, offset by a lack of additional debt plans in the near term given the focus on funding projects outstanding.

Environmental, social, and governance

In our opinion, the utility's environmental risk factors are neutral given its sufficient water capacity and environmental compliance. While Lake Kiowa and the region are not experiencing any major drought conditions, the state has periods of drought, which, with potential water scarcity, could hinder growth. Partly tempering this, in our view, is the district's drought management plan. We also view governance risk factors as neutral, given the system's long-term capital planning and internal rate efficacy analyses to maintain ample cost recovery and liquidity reserves. Some operational management practices could be better codified. Social risks, while neutral, could become elevated if financial capital improvements pressures rate affordability through additional rate increases to support unbudgeted capital project cost overruns.

Outlook

The stable outlook reflects our expectation that annual rate increase plans and management's monitoring of cost recovery will support healthy debt service coverage as debt obligations increase after 2026. We also expect cash flow to support liquidity well above the management's targeted reserve minimums. We believe the affluent customer base also presents stability in cash flow and helps temper affordability concerns.

Downside scenario

We could lower the rating if coverage decreases as a result of consistently higher-than-expected project costs that lead to insufficient cost recovery, weakening coverage, and/or lower-than-projected liquidity in the next few years.

Upside scenario

Given the system's future capital needs and high leverage position, we believe the potential for a higher rating would be low within the next two years. Any upward credit movement could follow consistent overperformance of coverage expectations as annual debt service payments ramp up, amid maintenance of healthy liquidity reserves and completion of capital projects outstanding. Over the longer term, if growth trends outpace expectations and lead to significant financial performance, we may consider raising the rating.

Lake Kiowa Special Utility District, Texas--economic and financial data

Fiscal year-end

	Most recent	2025	2024	2023	Median (A)
Economic data					
MHHEBI of the service area as % of the U.S.	133.0				86.0
Unemployment rate (%)	3.0				4.0
Poverty rate (%)	11.2				13.1
Water rate (6,000 gallons or actual; \$)	166.3				42.4
Sewer rate (6,000 gallons or actual; \$)	0.0				42.0
Annual utility bill as % of MHHEBI	2.2				1.3
Operational management assessment	Standard				Standard
Financial data					
Total operating revenue (\$000s)		2,375	1,956	2,037	4,663
Total operating expenses less depreciation (\$000s)		1,115	1,039	1,062	3,591
Net revenue available for debt service (\$000s)		1,303	956	995	--
Debt service (\$000s)		619	625	461	--
S&P Global Ratings-adjusted all-in DSC (x)		2.1	1.5	2.2	1.6
Unrestricted cash (\$000s)		2,126	1,839	1,631	3,895
Days' cash		696	646	561	502
Total on-balance-sheet debt (\$000s)		15,366	9,200	9,627	11,076
Debt-to-capitalization ratio (%)		69.6	61.0	64.0	45.0
Financial management assessment	Standard	--	--	--	Standard

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

Ratings List

New Issue Ratings

US\$6,610,000 Greater Texoma Utility Authority, (A political subdivision of the State of Texas located in Grayson, Collin, Fannin and Cooke Counties), Contract Revenue Bonds, Series 2026, (Lake Kiowa Special Utility District Project), dated: June 18, 2026, due: August 15, 2056

Long Term Rating A/Stable

New Rating

Water & Sewer

Greater Texoma Utility Authority, TX Water System Revenues A/Stable

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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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