S&P Global Ratings

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Research Update:

Universal City, TX Series 2026 Waterworks And Sewer System Revenue Bonds Assigned 'AA+' Rating

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to Universal City, Texas' $20 million waterworks and sewer system revenue bonds, series 2026.
- At the same time, we affirmed our 'AA+' long-term rating on the city's outstanding utility revenue debt.
- The outlook is stable.

Rationale

Security

Net revenues of the city's water and sewer system secure the bonds. We view bond provisions as credit neutral, with rates covenanted to maintain 1.25x debt service coverage (DSC). Bond proceeds will be used to fund capital projects, primarily renewal and replacement activities. Total debt outstanding is $9 million.

Credit highlights

The rating reflects strong financial metrics, low operational risk, and proactive rate setting that we anticipate will maintain performance in the foreseeable future. The size of the service area is limited compared with that of similarly rated peers, but the city's limited capital and operational risk due to being a distribution- and collection-only system is a credit advantage. We note that the city's five-year capital plan totals only $25 million, with a majority of needs being front-loaded and paid for by the bonds. As annual capital investment slows to $500,000 a year beginning in 2028, we anticipate that both operating margins and liquidity reserves will remain near historical averages. In addition, management proactively manages rates, with annual review of sufficiency and pass-through of wholesale costs, which we consider a strength.

The rating further reflects the following:

- The service area benefits from strong employment opportunities through participation in the broad and diverse San Antonio-New Braunfels metropolitan statistical area, as well as proximity to Randolph Air Force Base.

- Utility rates are affordable.
- We anticipate all-in DSC will remain over 2.0x given no additional debt plans. All-in coverage is S&P Global Ratings' internally adjusted DSC metric that we believe best tracks the use of every dollar of utility operating revenues, regardless of lien position, accounting treatment, or ultimate purpose. As a result, we factor in imputed fixed wholesaler costs.
- We expect liquidity reserves will modestly grow in the next several years; historically, they have exceeded management's target of six months' operating expenses.
- We view the city's exposure to drought as somewhat elevated, but we believe that forward-looking capital planning has mitigated significant water shortage risk. The city maintains an automatic passthrough of Edwards' Aquifer fixed management fees, has plans to add additional storage capacity, and maintains an emergency connection with the city of Selma, which we anticipate will limit revenue volatility related to drought concerns.

Outlook

The stable outlook reflects our expectation that the city will maintain strong financial metrics as a result of strong proactive financial planning and limited capital needs, in addition to its operational advantages as a result of strong relationships with its wholesale providers.

Downside scenario

We could lower the rating if economic growth slows or declines, leading to pressure on utility rate affordability or management's ability to easily pass through rising wholesale costs.

Upside scenario

Given the limited service area with economic growth dependent on infill, we do not anticipate raising the rating in the two-year outlook horizon.

Universal City, Texas--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (AA+)
Economic data					
MHHEBI of the service area as % of the U.S.	93.0				112.0
Unemployment rate (%)	3.7				3.4
Poverty rate (%)	14.6				10.2
Water rate (6,000 gallons or actual) ($)	54.4				33.9
Sewer rate (6,000 gallons or actual) ($)	63.3				38.6
Annual utility bill as % of MHHEBI	2.2				1.0
Operational management assessment	Good				Good
Financial data					
Total operating revenues ($000s)		10,811	11,499	11,131	41,982
Total operating expenses less depreciation ($000s)		8,103	10,789	6,787	31,740
Net revenues available for debt service ($000s)		4,234	2,572	5,897	--
Debt service ($000s)		1,268	1,275	941	--
S&P Global Ratings-adjusted all-in DSC (x)		2.6	1.7	4.3	2.5

Universal City, Texas--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (AA+)
Unrestricted cash ($000s)		11,835	9,950	12,552	55,536
Days' cash of operating expenses		533	337	675	650
Total on-balance-sheet debt ($000s)		9,019	10,005	10,966	74,352
Debt-to-capitalization ratio (%)		17.1	19.7	21.7	25.0
Financial management assessment	Good	--	--	--	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$20.000 mil wtrwrks and swr sys rev bnds ser 2026 dtd 9/17/2026 due 9/1/2051	
Long Term Rating	AA+/Stable

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.