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Ratings

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Research Update:

Northwest Williamson County Municipal Utility District No. 2, TX Series 2026 Unlimited-Tax Bonds Assigned 'BBB' Rating

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Overview

- S&P Global Ratings assigned its 'BBB' rating to Northwest Williamson County Municipal Utility District (MUD) No. 2, Texas' $15 million series 2026 unlimited-tax bonds.
- At the same time, S&P Global Ratings affirmed its 'BBB' underlying rating (SPUR) on the district's general obligation debt outstanding.
- The outlook is stable.

Rationale

Security

Revenue from an annual ad valorem tax, levied without legal limitation against all taxable property within the district, secures the bonds.

Bond proceeds will be used to finance water, sewer, and drainage project reimbursements.

Credit highlights

The rating reflects our view of the district's rapidly growing tax base and maintenance of very strong reserves. However, as a growing district, this is attributable to higher tax rates, debt, and fluctuations among its top taxpayers.

Benefiting from its proximity to the Austin-Round Rock-San Marcos metropolitan statistical area, the district has experienced rapid assessed valuation (AV) growth since its inception. The tax base increased by an average of 220% annually from 2022 to 2025. The district’s growing status has led to rapid developments within the area, as it continues to build on its available acreage. Significant developments include residential construction, with 491 homes completed, 35 homes under construction, and 283 lots available for construction. Management expects AV will continue to grow at approximately $75 million-$100 million annually over the next several years.

The district’s finances remain very strong, supported by its historical surpluses as revenue growth continues. Management expects this trend will continue with fiscal 2026 expected to end with a surplus of about $240,000, bringing general fund reserves to approximately $1.25 million. No material changes are planned for the fiscal 2027 budget, and the district expects to adopt a modest surplus.

We consider the district’s debt burden to be elevated, with overall net debt that we consider high. Approximately 19% of the district’s debt is maturing over the next 10 years. In future years, the district expects to continue issuing for further growth as allowed, waiting to issue until AV can support both debt service and operations at the existing 95 cent tax rate. Although elevated, in our opinion, the district’s debt will remain manageable as its property tax base continues to grow. However, we expect the debt, while manageable, will remain elevated given the slower amortization rates and continued growth in the area that will warrant additional debt needs.

The rating further reflects our opinion of the MUD's:

- Rapidly growing tax base and growing status of development, which will continue to increase its revenues, supporting operations and debt service;
- Very strong reserves, which are well above those of similarly rated peers and which we expect will be maintained at very strong levels due to continued expected positive operating results and tax base growth;
- Very low total property tax rate, providing additional flexibility should the district need it, and a moderate direct tax rate, which the district does not anticipate changing; and
- High overall net debt as a percentage of market value, which we believe will remain elevated given the continued growth-related needs the district will face.
- Although physical risks are relevant for the local government sectors, we consider the MUD’s exposure to natural hazards, including flooding, drought, extreme heat, and extreme weather generally in line with that of U.S. peers, and therefore not a material factor in our credit analysis. In addition, the district carries ample reserves to cover one-time expenditures should the need arise.

Outlook

The stable outlook reflects our opinion that the district will sustain its positive operating results, growing its healthy reserve position, while continued growth will support revenue, offsetting debt and expenditure increases.

Downside scenario

Should the district's debt burden increase at a rate no longer sustainable with its growth, and the district's finances and reserves deteriorate to levels no longer comparable with those of peers, we could lower the rating.

Upside scenario

We could consider raising the rating if growth continues alongside moderation of the MUD's elevated debt burden.

Northwest Williamson County Municipal Utility District No, 2, Texas--key credit metrics

	Characterization	Most recent	Historical information		
			2025	2024	2023
Economic indicators					
AV ($000)		305,113	135,891	101,076	35,185
Top 10 taxpayers as % of taxable value	Moderately concentrated	32.4	28.9	43.8	89.8
Status of development (%) (infrastructure)	Growing	65.2	65.2	70.7	21.7
Financial indicators					
Available general fund balance ($000)			1,078	761	317
Operating expenditures ($000)			183	199	80
Available reserves as % of operating expenditures	Very strong		589.1	382.4	396.3
Debt service fund balance as a % of MADS	Very strong	163.7	111.0	109.7	112.0
Direct property tax rate ($ per $100 of AV)	Moderate	0.95	0.95	0.95	0.95
Total property tax rate ($ per $100 of AV)	Very low			2.50	-
Debt and long-term liabilities					
Overall net debt as % of market value	High	17.4	21.2	19.6	33.5

AV--Assessed value. MADS--Maximum annual debt service. MADS year: 2047.

Ratings List	
New Issue Ratings	
US$15,000,000 Northwest Williamson County Municipal Utility District No. 2, Texas, Unlimited Tax Bonds, Series 2026, dated: Date of Delivery, due: August 15, 2051	
Long Term Rating	BBB/Stable
Ratings Affirmed	
Local Government	
Northwest Williamson County Municipal Utility District No. 2, TX Unlimited Tax General Obligation	BBB/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.