CREDIT OPINION
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Smiley Road Water Control and Improvement District No. 1, TX

Update to credit analysis

Summary

Smiley Road Water Control and Improvement District No. 1, TX's (Baa3) credit profile benefits from strong resident income relative to peers and healthy operating reserves balanced against elevated long-term liabilities with additional debt plans.

Credit strengths

» Healthy operating reserves relative to limited operational scope

» Strong resident income relative to peers

Credit challenges

» Elevated long-term liabilities with future debt plans

Rating outlook

We do not assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

» Decrease in long-term liabilities to full value ratio well below 12%

» Increase of available fund balance to long-term liabilities ratio above 15%

Factors that could lead to a downgrade

» Increase in long-term liabilities to full value ratio well above 20%, inclusive of developer owed reimbursements

» Decrease of available fund balance to long-term liabilities ratio below 7.5%

» Erosion of available fund balance and/or liquidity ratios approaching 100%

Key indicators

Exhibit 1

Smiley Road Water Control and Improvement District No. 1, TX

	2023	2024	2025	2026
Economy				
Resident income ratio (%)	189.4%	188.5%	N/A	N/A
Full value ($000)	$82,946	$182,800	$229,646	$262,131
Financial Performance				
Revenue ($000)	$855	$1,986	$2,445	$2,726
Capital-focused Issuers -- Available Fund Balance	$1,185	$3,025	$4,204	$4,849
Net unrestricted cash ($000)	$1,204	$3,046	$4,979	$4,913
Capital-focused Issuers -- Available Fund Balance Ratio	138.7%	152.3%	171.9%	177.9%
Liquidity ratio (%)	140.8%	153.3%	203.6%	180.3%
Available fund Balance to Liabilities Ratio	7.1%	11.1%	9.4%	11.0%
Leverage				
Debt ($000)	$0	$17,288	$27,488	$27,031
Adjusted net pension liabilities ($000)	$0	$0	$0	$0
Adjusted net OPEB liabilities ($000)	$0	$0	$0	$0
Other long-term liabilities ($000)	$16,673	$9,907	$17,317	$17,219
Long-term Liabilities Ratio	1951.1%	1369.1%	1832.2%	1623.5%
Long-term Liabilities to Full Value Ratio (annual, used in key indicators)	20.1%	14.9%	19.5%	16.9%

For definitions of the metrics in the table above please refer to the US Special Purpose Districts Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Special Purpose Districts Median Report.
The real GDP annual growth metric cited above is for the Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area.
Sources: US Census Bureau, Smiley Road Water Control and Improvement District No. 1, TX's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

Smiley Road Water Control & Improvement District No. 1, TX is located in Denton County, roughly 35 miles north of Dallas, and wholly within the extraterritorial jurisdiction of the City of Celina. The district has a population of about 2,300 residents.

Detailed credit considerations

The district's location in the DFW metroplex will continue to support its large tax base and strong income levels. Resident income sits at 189% of the nation, a value well above peers, using Celina ISD as a proxy. As of August 31, the district had completed construction on 646 homes, with 183 homes either under construction or owned by the builder, and an additional 207 lots on 47 acres of land available for construction.

Financial ratios will remain stable and above 140% as the district is budgeting for a modest surplus in fiscal 2027 (April 30 year-end). Both ratios are in line with peers and sufficient to meet the district's funding needs given limited operational responsibility. The district receives water and wastewater services from the Mustang Special Utility District and manages its own road maintenance.

The district's long-term liabilities relative to full value will remain elevated for the foreseeable future given plans to reimburse the substantial amounts owed to developers for capital contributions, although the district is not obligated to issue debt to repay these developer liabilities if tax base growth does not materialize. The district's long-term liabilities relative to full value will remain elevated at roughly 16%, inclusive of the proposed issuance, owed developer reimbursements for infrastructure, and considering the most recent full value as of October 1 ($298.8 million). Net of amounts owed to developers, long-term liabilities are still elevated but the ratios moderate to around 13%. Available fund balance relative to liabilities will be roughly 10% post sale.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

ESG considerations

Environmental

The local government sector generally has low exposure to environmental risks, and the same holds true for the district. The district is at medium risk for heat stress, water stress and extreme rainfall events. Favorably, the State of Texas has taken action to help mitigate water stress risk within its borders by issuing general obligation debt through the Texas Water Development Board (TWDB) since the 1950s to finance a variety of water conservation and supply projects.

Social

While the district is primarily residential and is exposed to challenges posed by demographic, housing and income trends, its proximity to a large metro area and development being completed mitigates potential challenges and limits future construction risk.

Governance

The district is governed by a board of directors, consisting of five directors serving four-year staggered terms. The district does not have any employees, which is typical for MUDs, and contracts out for critical needs including bookkeeping and other financial services. The district is subject to oversight by the Texas Commission of Environmental Quality.

Rating methodology and scorecard factors

The US Special Purpose Districts Methodology includes a scorecard that summarizes the rating factors generally most important to municipal utility district credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 2

Smiley Road Water Control and Improvement District No. 1, TX

	Measure	Weight	Score
Economy			
Resident income ratio	188.5%	30.0%	Aaa
Financial Performance			
Capital-focused Issuers -- Available Fund Balance Ratio	177.9%	5.0%	Aaa
Available fund Balance to Liabilities Ratio	11.0%	20.0%	B
Liquidity ratio	180.3%	5.0%	Aaa
Leverage			
Long-term Liabilities to Full Value Ratio	16.9%	40.0%	B
Notching factors			
Limited scale of operations	-1.0		
Scorecard-Indicated Outcome			Baa3
Assigned Rating			**Baa3**

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Smiley Road Water Control and Improvement District No. 1, TX's financial statements and Moody's Ratings

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