CREDIT OPINION
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Pilot Knob Municipal Utility District 3, TX

Update to credit analysis

Summary

Pilot Knob Municipal Utility District No. 3, TX's (A3) credit profile reflects a robust financial position, rapid residential development and a favorable location in the Austin metropolitan area. These strengths are balanced against elevated long-term liabilities relative to full value and low available fund balance relative to long-term liabilities.

Credit strengths

» Strong available fund balance and liquidity ratios

» Rapid residential development and favorable location in the Austin metropolitan area

» Limited operating responsibilities, with utility operations provided by the City of Austin

Credit challenges

» Elevated long-term liabilities relative to full value

» Low available fund balance relative to long-term liabilities

» Sizable outstanding developer reimbursement obligations

Rating outlook

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

Factors that could lead to an upgrade

» Decline in the long-term liabilities to full value ratio below 5%

» Increase in available fund balance to liabilities ratio to around 35%

Factors that could lead to a downgrade

» Trend of deficit operations leading to a decline in available fund balance or liquidity ratios below 100%

» Increase in long-term liabilities to full value ratio approaching 15% on a forward-looking basis

» Decline in available fund balance to liabilities ratio below 12%

Key indicators

Exhibit 1
Pilot Knob Municipal Utility District 3, TX

	2022	2023	2024	2025
Economy				
Resident income ratio (%)	100.1%	106.3%	100.7%	100.7%
Full value ($000)	$310,312	$690,258	$804,412	$854,073
Financial Performance				
Revenue ($000)	$3,405	$5,690	$7,286	$8,034
Capital-focused Issuers -- Available Fund Balance	$3,634	$7,746	$10,392	$12,728
Net unrestricted cash ($000)	$7,313	$10,089	$12,948	$16,154
Capital-focused Issuers -- Available Fund Balance Ratio	106.7%	136.1%	142.6%	158.4%
Liquidity ratio (%)	214.8%	177.3%	177.7%	201.1%
Available fund Balance to Liabilities Ratio	7.2%	12.4%	13.6%	15.0%
Leverage				
Debt ($000)	$50,213	$62,218	$75,948	$84,567
Adjusted net pension liabilities ($000)	$0	$0	$0	$0
Adjusted net OPEB liabilities ($000)	$0	$0	$0	$0
Other long-term liabilities ($000)	$203	$263	$339	$381
Long-term Liabilities Ratio	1480.7%	1098.2%	1047.0%	1057.4%
Long-term Liabilities to Full Value Ratio (annual, used in key indicators)	16.2%	9.1%	9.5%	9.9%

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 Austin-Round Rock-San Marcos, TX.
Sources: US Census Bureau, Pilot Knob Municipal Utility District 3, TX's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

Pilot Knob MUD 3 encompasses approximately 678 acres in Travis County, about eight miles southeast of downtown Austin and within Del Valle Independent School District. The rapidly growing district has an estimated population of about 5,719 residents. Utility operations are provided by the City of Austin.

Detailed credit considerations

The district's economy will continue to benefit from residential development and its favorable location south of Austin. As of August 2026, all 678 developable acres had utility facilities, and the district included 1,634 completed homes, 21 homes under construction and 201 vacant developed lots. Continued home construction and absorption of remaining vacant lots will support tax base growth, although the pace of growth will remain dependent on housing demand and market conditions. The district's 2026 certified value declined 4% to $817 million from $854 million in 2025 due to declines in average residential taxable values. Resident income is equal to 100% of the US, using Del Valle Independent School District as a proxy.

The district's financial position will remain robust through fiscal 2027 (Sept. 30 year-end). Unaudited fiscal 2026 results show a $2.2 million operating surplus, increasing available fund balance to approximately $14.4 million. The district adopted a modest surplus for fiscal 2027, which would increase available fund balance and net cash modestly to about 169% and 215% of revenue, respectively. The district tends to outperform its budgets. Financial flexibility will also continue to benefit from the district's limited operating responsibilities, as water and wastewater services are provided by the City of Austin.

Leverage will remain the district's primary credit challenge. Following the proposed issuances, long-term liabilities will represent approximately 13% of the district's $817 million 2026 certified value, while available fund balance will represent about 13% of long-term liabilities. These measures exclude approximately $14.6 million of developer advances for infrastructure costs that remain eligible for reimbursement. Including these obligations would increase long-term liabilities to approximately 15% of full value and reduce

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available fund balance to long-term liabilities to about 12%. The district expects to reimburse developers through future debt issuance as assessed value expands; however, these advances do not require repayment if sufficient tax base growth does not materialize.

ESG considerations

Environmental

The district's central Texas location exposes it to high water stress and wildfire risk and medium heat stress. Utility service is provided by the City of Austin, which has regional supply and treatment capacity. A portion of the district lies within the 100-year floodplain, although no residential lots are developed or expected to be developed within that area.

Social

The district's location within the Austin metropolitan area supports residential demand and population growth. Resident income is at 100% of the US, using Del Valle Independent School District as a proxy. Continued home construction and absorption of remaining developed lots will support the tax base, while weaker housing demand or property values could constrain growth.

Governance

A five-member board governs the district, with four directors elected to staggered four-year terms and one appointed by the City of Austin. The district has no employees and contracts for bookkeeping, engineering, legal and other professional services. It is subject to continuing supervision by the Texas Commission on 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 does not capture every consideration relevant to an individual issuer, the scorecard-indicated outcome may differ from the assigned rating. The district's scorecard indicated outcome is two notches below the assigned rating of A3 as the scorecard indicated outcome does not fully capture the strength of the local economy and our expectation that future debt issuance will occur alongside continued taxable value and property tax revenue growth, resulting in leverage metrics that remain broadly consistent with current rating levels.

Exhibit 2

Pilot Knob Municipal Utility District 3, TX

	Measure	Weight	Score
Economy			
Resident income ratio	100.7%	30.0%	Aa
Financial Performance			
Capital-focused Issuers -- Available Fund Balance Ratio	158.4%	5.0%	Aaa
Available fund Balance to Liabilities Ratio	15.0%	20.0%	Ba
Liquidity ratio	201.1%	5.0%	Aaa
Leverage			
Long-term Liabilities to Full Value Ratio	10.4%	40.0%	Ba
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Baa2
Assigned Rating			**A3**

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Austin-Round Rock-San Marcos, TX Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Pilot Knob Municipal Utility District 3, TX's financial statements and Moody's Ratings

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