

## CREDIT OPINION

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# Pilot Knob Municipal Utility District 2, TX

## Update to credit analysis

### Summary

[Pilot Knob Municipal Utility District 2, TX's](#) (Baa3 stable) credit profile is supported by a small, but rapidly growing tax base located within the economically vibrant [Austin, TX](#) (Aa1 stable) metro area. Available fund balance and liquidity are solid and will continue to improve supported by growing property tax revenue. The profile also benefits from limited operating risk as the City of Austin provides water and wastewater service to the district. The debt burden is high and will remain elevated given slow principal amortization and plans for additional debt to reimburse developers. Positively, the district does not have pension or other post-employment (OPEB) liabilities.

### Credit strengths

- » Rapidly growing tax base
- » Trend of improving reserves
- » No pension or OPEB liabilities

### Credit challenges

- » Modestly sized tax base
- » Below average income indices
- » High debt burden, additional borrowing plans and slow principal amortization

### Rating outlook

The stable outlook reflects the expectation that construction of single-family homes will continue to support tax base growth and reserves will continue to improve. Additionally, the outlook reflects the expectation that additional debt issuances will occur in conjunction with taxable value growth, keeping the debt burden high yet stable.

### Factors that could lead to an upgrade

- » Continued assessed value growth
- » Higher available fund balance and liquidity
- » Substantial moderation of the debt burden

## Factors that could lead to a downgrade

- » Increase in debt burden without an accompanying increase in taxable values
- » Reduction of available fund balance or liquidity
- » Contraction of assessed value

## Key indicators

Exhibit 1

### Pilot Knob Municipal Utility District 2, TX

	2018	2019	2020	2021	2022
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$2,340	\$2,054	\$12,023	\$49,450	\$129,336
Population	-	-	-	-	952
Full Value Per Capita	-	-	-	-	\$135,857
Median Family Income (% of US Median)	73.2%	77.9%	84.0%	84.7%	84.7%
<b>Finances</b>					
Operating Revenue (\$000)	-	-	\$290	\$170	\$1,139
Fund Balance (\$000)	-	-	\$192	\$243	\$1,299
Cash Balance (\$000)	-	-	\$181	\$437	\$1,462
Fund Balance as a % of Revenues	-	-	66.3%	143.4%	114.0%
Cash Balance as a % of Revenues	-	-	62.3%	257.5%	128.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	-	-	\$	\$3,500	\$6,360
3-Year Average of Moody's ANPL (\$000)	-	-	-	-	\$
Net Direct Debt / Full Value (%)	-	-	0.0%	7.1%	4.9%
Net Direct Debt / Operating Revenues (x)	-	-	0.0x	20.6x	5.6x
Moody's - ANPL (3-yr average) to Full Value (%)	-	-	-	-	0.0%
Moody's - ANPL (3-yr average) to Revenues (x)	-	-	-	-	0.0x

Sources: US Census Bureau, Pilot Knob Municipal Utility District 2, Tx's financial statements and Moody's Investors Service

## Profile

Pilot Knob MUD 2 encompasses 557 acres within [Travis County](#) (Aaa stable), approximately 8 miles southeast of [Austin](#) (Aa1 stable) and within Del Valle Independent School District. The rapidly growing district has an estimated population of 1,106.

## Detailed credit considerations

The tax base will continue to grow in the next couple of years, supported by ongoing single family residential development. Over the last five years, assessed value (AV) grew a significant 148% annually, on average, driven by new residential development to \$191 million in fiscal 2024, which is below the median for the rating category. Roughly 345 acres have been developed and include 316 completed single family homes, 100 homes under construction, and 794 vacant lots available for new home construction. There are 70 acres available for future development. Using Del Valle ISD as a proxy, median family income is 87% of the nation. Water and wastewater service is provided through an agreement with the City of Austin.

The financial profile is stable and reserves continued to improve in fiscal 2022 (September 30 year-end). At the end of 2022, the general fund closed with a \$675,000 surplus, which increased the available general fund balance to \$862,000 or 105% of general fund revenue. Including the debt service fund, the available operating fund balance increased to \$1.3 million or 114% of combined revenue. There are no plans to reduce fund balances in the next couple of years. Unaudited fiscal 2023 results indicate a \$419,000 surplus in the

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general fund and the fiscal 2024 budget reflects a general fund surplus of \$87,000. Materially higher available fund balances relative to revenue would be positive for the credit profile.

The debt burden is elevated and will remain so in the next couple of years given additional borrowing plans and slow principal amortization (27% retired in 10 years). Including the current offering, the district will have \$22.7 million of outstanding general obligation unlimited tax (GOULT) bonds, representing an elevated 11.9% of fiscal 2024 AV. The high debt is moderated by the lack of pension or other post employment benefit liabilities. After the current offering, the district will owe developers roughly \$22 million for previously completed capital outlay.

## ESG considerations

### Environmental

The local government sector generally has low exposure to environmental risks. The district's location in central Texas puts it at high risk of water stress and wildfires and medium risk for heat stress and flooding. Extreme weather events are typically accompanied by state and federal assistance, which further mitigates environmental risk.

### Social

Social considerations do not present material risks to the district's credit profile. The population will continue to grow as the district develops. Income levels in the area, using Del Valle ISD as a proxy, are below average with a median family income equal to 87% of the US.

### Governance

The district is governed by a five-member board of directors with staggered terms. The institutional structure is solid given the Texas Commission on Environmental Quality (TCEQ) has strong oversight over municipal utility districts and monitors compliance with state laws, bonds issuances, and board appointments.

Texas MUDs have an Institutional Framework score of Aa, which is strong compared to the nation. Property taxes, one of the sector's major revenue sources, are not subject to any caps for debt service. MUDs that are considered over 95% developed, are subject to a property tax cap of 3.5% for maintenance and operations. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs specifically for debt service are generally greater than 25% of expenditures. MUDs have no full time employees. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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