

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 & Improvement District No. 1's](#) (Baa3) credit profile benefits from ample operating reserves relative to its very limited scope of operations; all water and wastewater services are provided directly to residents by Mustang Special Utility District. The district has a growing \$230 million tax base that benefits from inclusion in the rapidly growing and desirable economy of the [City of Celina](#) (Aa1 stable) in North Texas. These positive attributes are weighed against the district's very limited operating history and likelihood the 12% debt burden will remain high given additional issuance plans and slow principal amortization. Additionally, the district lacks pension and OPEB obligations which is common among Texas municipal utility districts.

Credit strengths

- » Ample operating reserves relative to the district's very limited scope of operations
- » Lack of pension and OPEB obligations
- » Growing tax base located in the extraterritorial jurisdiction of rapidly growing City of Celina, TX

Credit challenges

- » Limited operating history
- » High debt burden with additional issuance plans and slow principal amortization

Rating outlook

We do not assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Continued and significant tax base growth
- » Moderation of the debt burden to below 10% of full value

Factors that could lead to a downgrade

- » Material leverage increase to over 15% of full value
- » Erosion of operating reserves to below 100% of operating revenue

Key indicators

Exhibit 1

Smiley Road Water Control and Improvement District 1, TX	2022	2023	2024
Economy/Tax Base			
Total Full Value (\$000)	\$31,561	\$82,946	\$182,800
Population	-	1,194	1,241
Full Value Per Capita	N/A	\$69,469	\$147,300
Median Family Income (% of US Median)	160.2%	-	-
Finances			
Operating Revenue (\$000)	\$402	\$855	\$1,986
Fund Balance (\$000)	\$391	\$1,185	\$3,025
Cash Balance (\$000)	\$391	\$1,204	\$3,040
Fund Balance as a % of Revenues	97.1%	138.7%	152.3%
Cash Balance as a % of Revenues	97.2%	140.8%	153.1%
Debt/Pensions			
Net Direct Debt (\$000)	\$0	\$0	\$17,425
3-Year Average of Moody's ANPL (\$000)	\$0	\$0	\$0
Net Direct Debt / Full Value (%)	0.0%	0.0%	9.5%
Net Direct Debt / Operating Revenues (x)	0.0x	0.0x	8.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x

Source: Moody's Ratings, US Census Bureau, the district's audited financial statements

Profile

Smiley Road Water Control & Improvement District No. 1, TX is located in [Denton County](#) (Aaa stable), roughly 35 miles north of [Dallas](#) (A1 stable), and wholly within the extraterritorial jurisdiction of the City of Celina. The district has a population of about 1,240 residents.

Detailed credit considerations

The district's location in the highly desirable and rapidly growing City of Celina will contribute to continued tax base expansion over the next several years given resident access to employment opportunities throughout the DFW metroplex. Rapid homebuilding is driving tax base expansion, including a 26% increase for fiscal 2025 to \$230 million. The district has developed 42% of its total acreage and of the developed lots, 61% (393 homes) have been built upon and are now owner occupied. The district will continue to go rapidly as home construction continues.

Despite a limited operating history with only three years of audited financial statements, we expect the district's operating reserves will remain stable. The district's very limited scope of operations consists of the contracted professional services necessary to run the district such as accounting, engineering and legal services. The district's water and wastewater service is provided by Mustang Special Utility District. In fiscal 2024 (fiscal year end April 30), operations closed with a general fund surplus, increasing available reserves to \$3 million or a strong 153% of revenue. The district's fiscal 2025 budget includes a general fund surplus of a little over \$500,000 as property tax revenue will significantly outpace the limited expenditures. We expect the growth of general fund reserves will slow in the coming years as the district bifurcates its tax rate to accommodate debt issuance.

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The district's debt burden will remain high given additional issuance plans and slow principal amortization. Post sale of the Series 2024 bonds, the debt burden will equal a high 12% of full value. The district will owe developers \$30 million to \$40 million in road project reimbursements post sale. Management plans to issue additional debt to reimburse the developer as taxable value growth allows.

ESG considerations

Environmental

The district's environmental considerations match those of the City of Celina, TX and reflect relatively low exposure to environmental risks across all categories including physical climate risk, carbon transition, water management, natural capital and waste and pollution.

Social

The district's social considerations reflect the district's location north of Dallas which makes it accessible to several employment centers within area. Labor and income metrics and demographic trends are strong, anchored by steady population gains. Resident income, using [Celina Independent School District](#) (Aa3) as a proxy, is well above average with a median family income equal to 160% of the US. Although housing costs are rising rapidly, they remain affordable in comparison to other high demand areas of the country.

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.

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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