

RatingsDirect®

Summary:

Headwaters Municipal Utility District of Hays County, Texas; General Obligation

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Credit Profile		
US\$1.28 mil unltd tax rd bnds ser 2025 dtd 04/22/2025 due 08/15/2049		
Long Term Rating	BBB+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'BBB+' long-term rating to Headwaters Municipal Utility District (MUD), Texas' \$1.28 million series 2025 unlimited-tax road bonds.
- S&P Global Ratings also affirmed its 'BBB+' underlying rating on the MUD's existing general obligation debt.
- The outlook is stable.

Security

The bonds are payable from a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the district. The bonds will finance the district's share of costs for road improvements and related enhancements, as well as real property to support the district.

Credit overview

The rating highlights the MUD's expanding tax base, growing stage of development, and significant debt burden. Covering about 1,504 acres (with 885 acres undevelopable), it's located 23 miles west of downtown Austin. The growth in assessed valuation (AV) is largely due new and ongoing residential, commercial, and multifamily developments; we note that the district benefits from the Austin metropolitan statistical area (MSA) and Dripping Springs Independent School District (ISD).

We expect continued growth in the tax base as new residential, commercial, and multifamily developments emerge and existing properties appreciate. Management expects that 180 single-family residential lots will be developed into completed homes over the next two years. In addition, commercial and multifamily development in the area is projected to drive significant assessed valuation growth during this period. The district is still in a growth phase, and we foresee additional debt issuance until development is complete, which could constrain financial flexibility in the near term.

Based on unaudited fiscal 2024 figures, the district reported a surplus of \$1.18 million in the general fund, driven by rising property valuations and additions to the tax base. With the adopted budget that shows a surplus of \$416,000 for fiscal 2025, we anticipate that general fund balances will remain robust.

The rating also reflects our opinion of the following for the district:

- An expanding tax base and ongoing development; the MUD benefits from its proximity to the Austin MSA and

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Dripping Springs ISD, both of which have strong demand. We expect continued growth as new residential, commercial, and multifamily developments emerge and existing properties appreciate;

- The district covers 1,504 acres: 451 acres developed, 885 acres undevelopable, and 168 acres available for future projects such as commercial or multifamily development. There are no plans to annex more land, and the district aims to complete the remaining 180 single-family residential lots in the next couple of years.
- Good general fund reserves that we expect will increase to very strong levels based on unaudited fiscal 2024 and expected results for fiscal 2025;
- Management plans to maintain moderate direct property tax, though we expect an increasing allocation to the debt service fund; and
- The district currently has high overall net debt, which we expect will remain in the near term, with a direct debt burden larger than that of peers. Despite considerable tax base growth in recent years, additional debt plans will likely keep the debt burden high until development is complete.

Environmental, social, and governance

We assessed the MUD's environmental, social, and governance factors and view them as credit neutral on our analysis.

Outlook

The stable outlook indicates our belief that the expanding tax base and ongoing development will keep supporting the district's budget performance and strong reserves.

Downside scenario

We could lower the rating if the district's reserves significantly deteriorate or if debt issuance outpaces tax-base growth.

Upside scenario

We could raise the rating if the district's direct and overall net debt burden declines to levels similar to those of higher-rated peers.

Headwaters Municipal Utility District of Hays County, Texas--key credit metrics

	Characterization	Most recent	Historical information		
			2023	2022	2021
Economic indicators					
AV (\$000)		547,813	336,731	192,907	125,070
Top 10 taxpayers as % of taxable value	Very diverse	12.9	19.1	29.4	40.0
Status of development (%) (infrastructure)	Growing	72.9	61.6	84.7	63.2
Financial indicators					
Available general fund balance (\$000)			1,699	2,140	1,210
Operating expenditures (\$000)		1,976	2,592	1,600	1,284
Available reserves as % of operating expenditures	Good		65.5	133.8	94.2
Debt service fund balance as a % of MADS	Adequate	51.4	43.8	133.3	120.3

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Headwaters Municipal Utility District of Hays County, Texas--key credit metrics (cont.)

	Characterization	Most recent	Historical information		
			2023	2022	2021
Direct property tax rate (\$ per \$100 of AV)	Moderate	0.9	0.9	0.9	0.9
Total property tax rate (\$ per \$100 of AV)	Very low		2.68	2.763	-
Debt and long-term liabilities					
Overall net debt as % of market value	High	20.5	24.4	20.4	22.5

AV--Assessed value. MADS--Maximum annual debt service. MADS year: 2042.

Ratings Detail (As Of March 6, 2025)

Headwaters Municipal Utility District of Hays County GO (AGM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Headwaters Municipal Utility District of Hays County GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Headwaters Municipal Utility District of Hays County (AGM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Headwaters Mun Util Dist of Hays Cnty GO (AGM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Headwaters Mun Util Dist of Hays Cnty GO (AGM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Headwaters Mun Util Dist of Hays Cnty GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Headwaters Mun Util Dist of Hays Cnty GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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