S&P Global Ratings

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Research Update:

High Point Special Utility District, TX Series 2026 Revenue Bonds Assigned 'AA-' Rating; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA-' rating to High Point Special Utility District, Texas's series 2026 revenue bonds.
- The outlook is stable.

Rationale

Security

The bonds are secured by a first lien on and pledge of net revenues of the water utilities fund.

Proceeds will be used to finance improvements and upgrades to the water system, including the construction of Pump Station No. 2, Phase 3, elevated tank improvements, and water line expansions.

We consider bond provisions to be credit neutral, with a rate covenant of 1.2x annual debt service, and an additional bonds test requiring 1.25x annual debt service coverage on both outstanding and proposed debt. A debt service reserve fund will also be established.

Following this issuance of $17.3 million, the district will have $27.1 million of revenue debt outstanding. This includes a very small portion of a U.S. Department of Agriculture loan assumed from the creation of the district in 2017 and a $9.6 million loan from the Texas Infrastructure Bank.

Credit highlights

The rating is supported by a rapidly expanding customer base within the Dallas-Fort Worth, Texas area economy that benefits from and is supported by a system with ample capacity, affordable rates, and historically healthy debt service coverage and available reserves. After layering in this issuance, all-in coverage, which includes the prior loans as well as water purchase costs, is projected to remain strong at approximately 1.4x through 2030. However, these projections are conservative – combining below average customer growth with above average water purchase costs. Given anticipated growth, we understand management has no plans to draw from reserves but rather increase them in light of future capital needs. Although the district has no significant capital or debt plans for the next 24 months, we believe management will need to remain diligent, implementing rate increases sufficient to address funding future growth-related capital needs while sustaining robust financial metrics in line with those of peers. The district was created in 2017 following the dissolution of the High Point Water Supply Corp. Most of the administration and the board are relatively new to their positions. Although management lacks the formal policies and procedures common with higher-rated utilities, officials have demonstrated a willingness to raise rates to sustain healthy cash and coverage metrics and therefore, provide rating stability.

The rating reflects our opinion of the district's:

- Rapidly expanding, primarily residential customer base with access to and participation in the Dallas-Fort Worth-Arlington metropolitan statistical area, which is marked by aggregated above-average incomes and low poverty rates (Kaufman and Rockwall counties), coupled with no concentration among leading customers;
- Ample system capacity. The system operates at about 36% capacity during peak periods, with current capital plans to increase capacity by over 60% to support growth;
- Affordable monthly rates at $62.29 based on average monthly consumption of 7,200 gallons. We expect rates to remain manageable even after factoring in an anticipated 10% increase for fiscal 2027, and do not expect them to pressure affordability or financial flexibility given above-average incomes;
- Annual debt service coverage, which by the district's conservative estimates, is projected to remain strong at about 1.4x annually through 2030;
- Available reserves, currently at strong levels, closing fiscal 2025 with $7.3 million equating to 385 days cash on hand which is projected to rise to $23.8 million or 893 days cash by 2030 aiding the district in managing future growth and insulating themselves from any unforeseen expenditures;
- Manageable debt burden with a debt-to-capitalization ratio of 41% that is not expected to rise significantly, given plans to potentially issue about $1.5 million to $2.0 million of additional debt during the next 18 to 24 months. However, should plans change and future debt issuances increase sharply, this could pressure the rating;
- Although physical and environmental risks are relevant to the water sector, we consider the district's exposure to natural hazards, including drought, extreme heat and severe weather events, to be low compared with that of national peers and therefore, not a material factor in our credit analysis.

Outlook

The stable outlook reflects our view that management will raise rates as needed to ensure the system produces sound financial metrics in line with those of peers. In addition, the rating reflects continued customer growth and the district's ability to proactively manage ongoing growth and capital needs.

Downside scenario

The rating could be lowered if management fails to adjust rates to sustain at least the current financial metrics, or if growth pressures cause the issuance of significant additional debt or the use of reserves if growth does not occur as projected.

Upside scenario

We could raise the rating should the district notably exceed and sustain cash and coverage projections while holding all other factors constant.

High Point Special Utility District, Texas--economic and financial data

		Fiscal year-end			
	Most recent	**2025**	**2024**	**2023**	**Median (AA-)**
Economic data					
MHHEBI of the service area as % of the U.S.	132.9				105.0
Unemployment rate (%)	4.0				3.6
Poverty rate (%)	7.3				11.3
Water rate (6,000 gallons or actual) ($)	62.3				37.7
Sewer rate (6,000 gallons or actual) ($)	0.0				40.8
Annual utility bill as % of MHHEBI	0.8				1.2
Operational management assessment	Standard				Good
Financial data					
Total operating revenues ($000s)		10,222	11,574	7,485	15,647
Total operating expenses less depreciation ($000s)		6,948	6,147	5,450	11,314
Net revenues available for debt service ($000s)		3,584	5,599	2,066	--
Debt service ($000s)		192	54	54	--
S&P Global Ratings-adjusted all-in DSC (x)		18.7	103.7	38.3	2.0
Unrestricted cash ($000s)		7,334	6,179	6,335	16,768
Days' cash of operating expenses		385	367	424	610
Total on-balance-sheet debt ($000s)		27,081	179	9,881	29,615
Debt-to-capitalization ratio (%)		41.0	0.6	28.3	31.0
Financial management assessment	Standard	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List	
New Issue Ratings	
US$17.285 mil rev bnds ser 2026 due 9/15/2051	
Long Term Rating	AA-/Stable
New Rating	
Water & Sewer	
High Point Special Utility District, TX Water System Revenues	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.