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Ratings

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Summary:

Jonah Water Special Utility District, Texas; Water/Sewer

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Credit Profile		
US$14.69 mil rev bnds ser 2025 dtd 01/01/2025 due 07/01/2055		
Long Term Rating	A+/Positive	New

Credit Highlights

- S&P Global Ratings assigned its 'A+' rating to Jonah Water Special Utility District, Texas' series 2025 revenue bonds.
- The outlook is positive.

Security

Net revenues of the water system secure the bonds. We view the bond provisions as credit neutral. The city will maintain a rate covenant at 1.10x annual debt service. The city's additional bonds test calls for net revenues to cover average annual debt service of all debt, including proposed debt, to at least 1.25x. Following the issuance of the approximately $14.49 million series 2025 bonds, the district will have approximately $42.2 million outstanding, though we understand that the district is likely to separately issue approximately $4 million in privately placed debt in fiscal 2024.

Credit overview

The rating affirmation reflects the service area's strong growth metrics, which have supported large revenue margins and healthy cash balances in the last three fiscal years. However, the district's strong growth drives a large capital plan, which could require use of its reserve balances. According to management, the district is currently performing a rate study that it expects will inform how to finance approximately $48.22 million in currently identified capital needs, although the implementation of many of the projects remains dependent on realized growth. Given these uncertainties, we have applied a negative adjustment to the overall rating.

S&P Global Ratings calculates that the district's coverage, without one-time development fees, stood at about 0.85x, 1.45x, and 2.1x in fiscal years 2021, 2022, and 2023, respectively, and that the district is targeting a minimum of 1.5x coverage without the inclusion of development fees. However, this will largely depend on the district's long-term rate plans, which are currently uncertain, other than a 3% planned increase for fiscal 2025 to offset inflationary costs, in addition to increased purchased water costs from Brazos River Authority (BRA). We understand that, by contract, BRA can only raise wholesale water rates by a maximum of 5% annually, or no more than 25% over a five-year period, which management has stated it budgets for annually, regardless of BRA's actual rate plans. We view a reliance on one-time connection fees to subsidize wholesale and other operational costs as a potential limiting credit factor, due to potential financial volatility that could result over the longer term.

Other key credit factors include the district's:

- Access to the Austin-Round Rock metropolitan area, supporting incomes well above the national average;
- Fairly affordable rates, which we view as supporting future rate-setting flexibility when considering usage in line with the national average (6,000 gallons);
- Stable reserves, which we expect could be spent on capital needs over the outlook period;
- Fairly low debt-to-capitalization ratio, with no current additional debt plans; and
- Adequate policies and procedures, with management regularly assessing growth expectations and subsequent capital needs. However, management does not regularly perform long-term financial projections or planning beyond the next budgeted year, which we view as contributing to a lack of foresight into the future financial condition of the utility and potential volatility.

Environmental, social, and governance

We view chronic and persistent drought, as well as severe storms, as physical risks we consider credit relevant. The utility and service area experienced stage two drought restrictions during both 2024 and 2023. As part of its drought management practices, management implements both voluntary and mandatory drought restrictions as it monitors groundwater levels. The utility also coordinates with BRA on the implementation of drought restrictions, as required by BRA. We view social and governance risks as credit neutral, given the currently affordability of water rates; however, we note that the district lacks codified policies and practices in certain areas, including those related to long-term planning, which we believe could inhibit transparency around its long-term financial state.

Outlook

The positive outlook reflects a one-in-three chance that we could raise the rating over the two-year outlook period should the district continue to produce stable coverage metrics not reliant on connection fees to achieve 1.0x coverage. The positive outlook also reflects our view that the district's rate study will provide additional clarity on the future financial state of the utility once future sources of finances to support the utility's growth-driven capital improvement plan (CIP) are identified.

Downside scenario

We could revise the outlook to stable if the utility continues to produce coverage that relies on one-time connection fees to achieve 1.0x coverage, if additional debt plans substantially pressure current coverage metrics, or if the utility spends down cash to levels in line with current or lower-rated peers.

Upside scenario

We could raise the rating if the service area continues to grow as expected, and if the system produces stable coverage not reliant on coverage fees on a recurring and consistent basis, along with the utility maintaining reserves at levels in line with those of higher-rated peers despite its sizable CIP.

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