

RatingsDirect®

Summary:

Brazoria-Fort Bend County Municipal Utility District No. 1, Texas; General Obligation

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Summary:

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Credit Profile

US\$7.395 mil unlt'd tax bnds ser 2014 dtd 05/01/2014 due 09/01/2034

Long Term Rating

BBB/Stable

New

US\$2.515 mil unlt'd tax rfdg bnds ser 2014 dtd 06/01/2014 due 09/01/2023

Long Term Rating

BBB/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'BBB' long-term rating to Brazoria-Fort Bend County Municipal Utility District (MUD) No. 1, Texas' series 2014 unlimited-tax bonds and unlimited-tax refunding bonds. Standard & Poor's also affirmed its 'BBB' long-term and underlying ratings (SPUR) on the district's previously issued general obligation (GO) debt. The outlook is stable.

The ratings reflect our opinion of the district's:

- Growing stage of development, indicating significant future capital needs;
- High overall net debt burden coupled with slow amortization; and
- Moderate direct property tax rate.

Factors that lessen these risks include our assessment of the district's:

- Participation in a master-planned community with access to the deep and diverse economy of the Houston metropolitan statistical area, and
- Very strong financial position.

An unlimited ad valorem property tax pledge on all taxable property within the district secures the bonds. Officials will use the bond proceeds for capital projects, payment of impact fees to the city of Pearland, and also for refunding purposes.

The 1,762-acre MUD No. 1 is about 15 miles from downtown Houston and entirely within Pearland's extraterritorial jurisdiction, as well as the boundaries of Alvin Independent School District and Fort Bend Independent School District. The MUD, part of the 3,750-acre master-planned community of Shadow Creek Ranch Development, is in the growing stage of development, with about 68% of its acreage complete with utility infrastructure. As of March 15, 2014, the district contained 3,044 homes, including 102 under construction. Despite the recent recession, the district's tax base has more than doubled from fiscal 2008, to reach \$578.9 million in fiscal 2014. Due to the various ongoing constructions within the district, the estimated assessed value (AV) at Feb. 1, 2014, rose 12% to \$645.6 million. The 10 leading taxpayers accounted for 5.9% of total fiscal 2014 AV.

Pearland and the district entered into a utility agreement in 2003 to provide a water distribution system, a sanitary sewer collection system, and a drainage system to serve the area within the district. Because the district acquired and constructed the system on behalf of the city, the city agreed to own and operate the system. In addition, the city has agreed to pay to the district the city tax rebate and the city utility rebate. The city also pays the district a rebate equal to 15 cents per \$100 of AV on all taxable property located within the district, as well as \$5 per month per house. Pursuant to the agreement, the city provides water supply and wastewater treatment to the district and the district pays impact fees. The district anticipates receiving \$868,329 in rebates in 2014. While the district may use this revenue for any legal purpose, it has historically used the most of the rebate to subsidize its debt service fund.

The MUD's financial position remains very strong, in our view. Fiscal 2013 closed with an available fund balance of \$2.1 million, or a very strong 711.1% of the operating expenditures. The district has adopted a balanced budget for fiscal 2014. At fiscal year-end 2013, the debt service fund totaled \$3.4 million, or a good 69% of the maximum annual debt service requirement, scheduled to occur in 2031. Property taxes and the city utility rebate account for 58% and 40% of the general fund revenues, respectively. The fiscal 2014 tax rate is 85 cents per \$100 of AV, which we consider moderate. The district's total tax rate ranges from \$3.39 to \$3.73 per \$100 of AV, which we consider high.

We view the MUD's overall net debt burden, net of state support to the overlapping school districts, to be high at 20.8% of AV. The MUD's direct debt burden is high at 11% of AV, with most of the overlapping debt attributed to Alvin Independent School District and Pearland. We consider the amortization schedule slow, with officials planning to retire 34% of principal over 10 years and 100% by 2034. The MUD currently has \$68.6 million of authorized, but unissued, debt remaining for utility purposes. The district owed about \$11 million to its developers at the end of fiscal 2013.

Outlook

The stable outlook reflects Standard & Poor's expectation that the MUD will likely continue to generate very strong general fund balances. It also reflects our expectation that the MUD will likely require additional debt to finance infrastructure on undeveloped land, but that debt will only be issued only if it is supported by sufficient property tax base growth. Further increases in the MUD's debt burden beyond current levels could likely place a downward pressure on the rating should assessed valuation not increase commensurately. We do not anticipate raising the rating within the two-year outlook horizon due to the district's additional capital needs.

Related Criteria And Research

Related Criteria

USPF Criteria: Methodology And Assumptions: Rating Unlimited Property Tax Basic Infrastructure Districts, March 17, 2009

Ratings Detail (As Of April 22, 2014)

Brazoria-Fort Bend Cnty Mun Util Dist #1 GO (AGM)

Unenhanced Rating

BBB(SPUR)/Stable

Affirmed

Ratings Detail (As Of April 22, 2014) (cont.)

Brazoria-Fort Bend Cnty Mun Util Dist #1 GO

<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	BBB/Stable	Affirmed

Many issues are enhanced by bond insurance.

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