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Brazoria-Fort Bend Cnty M.U.D. 1, TX

Update to credit analysis

Summary

Brazoria-Fort Bend County Municipal Utility District (MUD) 1, TX's (A1) credit profile benefits from a large and mature tax base whose growth has been driven by its favorable location relative to the Houston (Aa3 stable) central business district. Additional strengths include a healthy financial position, particularly in light of the limited scope of operations, and a lack of pension liabilities. The key challenge for the credit is an elevated debt profile which will continue to moderate given no future issuance plans and a somewhat rapid payout schedule.

Credit strengths

» Large, growing tax base favorably located in the Houston metropolitan area

» Ample reserves, relative to size and scope of operations

Credit challenges

» High debt ratio

Rating outlook

Moody's generally does not assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

» Moderation of debt levels

» Significant tax base growth

Factors that could lead to a downgrade

» Further debt issuance absent tax base growth

» Tax base contraction

» Deterioration of financial position

Key indicators

Exhibit 1

Brazoria-Fort Bend Cnty M.U.D. 1, TX	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$506,441	$577,993	$683,221	$718,929	$880,311
Population	N/A	N/A	N/A	N/A	N/A
Full Value Per Capita	N/A	N/A	N/A	N/A	N/A
Median Family Income (% of US Median)	161.2%	161.8%	161.5%	158.3%	158.3%
Finances					
Operating Revenue ($000)	$5,229	$6,011	$7,174	$7,402	$9,462
Fund Balance ($000)	$5,523	$5,250	$5,188	$9,260	$9,588
Cash Balance ($000)	$5,562	$5,411	$6,706	$9,252	$9,542
Fund Balance as a % of Revenues	105.6%	87.3%	72.3%	125.1%	101.3%
Cash Balance as a % of Revenues	106.4%	90.0%	93.5%	125.0%	100.8%
Debt/Pensions					
Net Direct Debt ($000)	$56,185	$62,105	$61,665	$75,605	$83,215
3-Year Average of Moody's ANPL ($000)	$0	$0	$0	$0	$0
Net Direct Debt / Operating Revenues (x)	10.7x	10.3x	8.6x	10.2x	8.8x
Net Direct Debt / Full Value (%)	11.1%	10.7%	9.0%	10.5%	9.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%

City of Pearland used as proxy for median family income
The district is located within the city, so occupied homes and an estimated population are not available; there are over 4,500 homes in the district and assuming at least 4,400 homes are occupied with 3.5 persons, the population exceeds 15,000 people
Source: Brazoria-Fort Bend Co MUD 1's annual financial statements, Moody's Investors Service

Profile

Brazoria-Fort Bend County Municipal Utility District (MUD) 1 was created on June 28, 2004 and is completely within the corporate boundaries of the City of Pearland (Aa2 negative). The district is favorably located 15 miles south of Houston's (Aa3 stable) central business district. The district is comprised of 1,762.1 acres across Brazoria (Aa1) and Fort Bend (Aa1 stable) counties, with a total of 1,158.3 acres developed. The district's population exceeds 15,000 people.

Detailed credit considerations

Economy and tax base: large, growing base approaching build out

The district's tax base will see more modest growth as development is largely complete. The district's tax base is sizeable compared to peers in the rating category at $1.1 billion as of fiscal 2019 and has benefitted from its location in the metropolitan area (about 15 miles south of Houston's central business district) and solid residential construction, driving an impressive 13% increase average annual growth in assessed values over the past five years. Estimates provided by the appraisal district as of August 1, 2018 reflect a more modest 4% increase to $1.1 billion. Major taxpayer concentration is modest with the top 10 accounting for less than 4% in fiscal 2019. As of August 15, 2018, the district had 4,546 homes, with 87 under construction. Home prices generally range between $190,000 and $600,000. No material impact to the assessed values is anticipated. An additional 228 lots are developed and ready for home construction, and the district also has an apartment complex. While there are about 51 acres available for development (excluding land owned by school districts), there are no firm plans to develop those acres at this time.

The district's population exceeds 15,000 people. Utility services are provided by the City of Pearland, and the district reports current connections should be sufficient to service all single family homes at build-out. Using the City of Pearland's resident income indicators as a proxy, the estimated median family income compares favorably with the nation at 158.3%.

Financial operations and reserves: stable operating performance and healthy reserves

The district's financial profile will benefit from stable operating performance and healthy reserves, given its relatively modest scope of operations and conservative budgeting practices. Excluding draws related to capital initiatives in fiscal years 2014 and 2015, the district has consistently been operationally balanced and generated surpluses over the past six years. As of fiscal 2017 (ends 9/30), the available general fund balance of $1.1 million represents a very healthy 158.4% of revenues. Utility operations are the responsibility of the city of Pearland, so district general fund expenses are minimal and largely for professional or contracted services. Including the debt service fund, total available operating reserves equaled $9.6 million (101% of operating revenues). The majority of the operating revenues received during fiscal 2017 were from property taxes (78.3% of total operating revenues), and tax and utility rebates from the City of Pearland (20.7%). The rebate from the city is a significant component of the funds available to pay debt service and is calculated based on an agreement between the district and the city and is tied to the tax rate levied by the district. The total tax rate to be levied in fiscal 2019 is $8.48 per $1,000 of assessed values, with $8 allocated for debt service, and $0.48 allocated for operations. The operating tax rate is subject to a maximum of $11.00 and the debt service tax rate is unlimited.

Fiscal 2018 performance is comparing favorably to the balanced budget with a surplus of over $500,000 realized through eleven months that will likely carry through the end of the fiscal year. The district consistently budgets for capital projects but those improvements were not necessary in fiscal 2018, driving the strong variance. The fiscal 2019 budget is balanced including approximately $235,000 of capital improvements.

LIQUIDITY

In line with the operating performance, the cash position has remained favorable. As of fiscal 2017, total operating cash was $9.5 million, which was 101% of operating revenues.

Debt and pensions: moderately high debt ratio will decline with no issuance plans; no pension liability

The district's somewhat elevated debt profile will begin to moderate given no future issuance plans and the relatively rapid payout schedule for the sector. With the issuance of the 2018 bonds, the district has $80.9 million in outstanding unlimited tax bonds, equating to a net direct debt burden of 7.6% of the fiscal 2019 valuation. This debt ratio is high at nearly three times the median for the rating level but is balanced against a large tax base and healthy financial profile. While the district will still have $32.3 million in authorized but unissued debt outstanding, there are no future debt issuance plans as the developer has been fully reimbursed and no firm development plans are indicated for the remaining developable land. Capital costs to develop the remaining acreage if ultimately developed may be covered with excess reserves and operating margin or further debt as needed.

DEBT STRUCTURE

The debt service schedule is generally descending with a final maturity in fiscal 2034. Payout is rapid for the sector as a whole but in line with peers in the rating category, with 70% of principal retired within in 10 years.

The district's current debt service levy of $8 per $1,000 of assessed values yields revenues of $8.5 million that are shy of the maximum annual debt service payment of $9.6 million scheduled for fiscal 2023. However, growth in assessed values, combined with ample reserves in the debt service fund and the tax rebate payment from the city (anticipated at $1.7 million in fiscal 2019), should be sufficient to meet debt obligations.

DEBT-RELATED DERIVATIVES

All of the district's debt is fixed rate, and the district is not party to any derivative agreements.

PENSIONS AND OPEB

The district does not have any employees and does not have a pension plan.

Management and governance: no active management

The district is governed by a five member board of directors whose members serve staggered four year terms.

Texas MUDs have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, one of the sector's major revenue sources are not subject to any caps for debt service. 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. Although MUDs have no full time

employees, Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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