

RatingsDirect®

Summary:

Brazoria County Municipal Utility District No. 26, Texas; General Obligation

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As an in-city MUD, the district entered into a utility agreement with Pearland that obligates the MUD to develop the service area with water, wastewater, and drainage facilities by connecting to the city's system. Once infrastructure development in the MUD is complete, the city will likely take ownership of the MUD's facilities. The city collects water and sewer rates, and the MUD levies a property tax rate to support operations. The city pays the district a property tax rebate and \$5 monthly per active residential connection. For fiscal year-end 2015, the property tax rebate is projected to total \$1.2 million. While the district can use these revenues for any legal purpose, it typically uses property tax rebates to subsidize debt service payments.

The MUD has historically maintained what we consider very strong reserves due to its limited operating responsibilities. The MUD ended fiscal 2015 with an available general fund balance of \$376,860, or 19.5% of expenditures, which we consider very strong. The district used \$745,000 of reserves to retire outstanding debt and \$685,000 was sent to Pearland for the construction of certain capital facilities. Additional liquidity is provided by the MUD's voluntary maintenance of a debt service fund, which totaled approximately \$3.8 million at the end of fiscal 2013, providing what we view as adequate coverage of about 62.9% on the maximum annual debt service (MADS) requirement, scheduled to occur in 2017. We understand that the MUD has adopted a balanced budget for fiscal 2016.

The MUD's overall net debt burden is high at about 15.3% of certified fiscal 2016. Officials attribute about 62% of the overall net debt burden to debt from overlapping entities, most of which is from Alvin Independent School District. Debt amortization is fairly rapid, with officials planning to retire 84% of principal in 10 years and 100% by 2032. After this issuance, the MUD will have \$33.52 million of authorized, but unissued, unlimited-tax bonds for water, wastewater, and drainage facilities and around \$72.2 million for refunding purposes. However, the MUD officials do not have any plans to issue additional debt in the near future.

Outlook

The stable outlook reflects our anticipation that the district will likely rebuild its very strong financial position back to historical levels due to its limited purpose and status as an in-city MUD. The outlook also reflects our expectation that the MUD will likely issue additional debt only if property tax base growth is sufficient to support the debt.

Upside scenario

We could raise the rating if there was significant expansion of the district's tax base which lowers overall net debt burden levels.

Downside scenario

We could lower the rating if the issuance of additional debt has an adverse effect on the already-high debt level.

Related Criteria And Research

Related Criteria

- USPF Criteria: Methodology And Assumptions: Rating Unlimited Property Tax Basic Infrastructure Districts, March 17, 2009
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of February 22, 2016)

Brazoria Cnty Mun Util Dist #26 GO

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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