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New Issue: MOODY'S ASSIGNS A1 UNDERLYING RATING TO HURST CREEK MUNICIPAL UTILITY DISTRICT'S (TX) $3.35 MILLION UNLIMITED TAX BONDS, SERIES 2012

Global Credit Research - 13 Jan 2012

A1 RATING AFFECTS $4.15 MILLION IN OUTSTANDING PARITY DEBT AND ALSO TAKES INTO CONSIDERATION $895 THOUSAND IN OUTSTANIDING PARITY DEBT NOT RATED BY MOODY'S

HURST CREEK MUNICIPAL UTILITY DISTRICT, TX
Texas Municipal Utility Districts (MUDs)
TX

Moody's Rating

ISSUE		RATING
Unlimited Tax Bonds, Series 2012		A1
Sale Amount	$3,350,000	
Expected Sale Date	01/24/12	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, January 13, 2012 --Moody's Investors Service has assigned an A1 underlying rating to Hurst Creek Municipal Utility District's (TX) $3.35 million Unlimited Tax Bonds, Series 2012. The A1 rating also takes into consideration $4.15 million in outstanding parity debt which was previously issued by the district and $895 thousand in outstanding parity debt not rated by Moody's. Proceeds from the sale will be used, in part, to redeem a bond anticipation note, the proceeds of which were used to pay the district's share of the purchase price of the Lower Colorado River Authority's Lakeway Barge Improvements. Proceeds will also be used to make improvements to the district's wastewater treatment plant and drainage system.

SUMMARY RATING RATIONALE

The bonds are payable from a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the district. The rating assignment reflects the district's small tax base that has reached full build-out, satisfactory financial operations with below average yet satisfactory reserve levels, and a debt burden which is below average for similarly rated districts.

STRENGTHS

* Satisfactory financial operations

* Below average debt burden

CHALLENGES

* Relatively narrow reserve levels

* Two years of decline in taxable value

DETAILED CREDIT DISCUSSION

SMALL PREDOMINATELY RESIDENTIAL TAX BASE; OLDER DISTRICT FULLY BUILD-OUT

We believe the district's small predominately residential tax base will remain relatively flat yet stable given the built-out nature of the district. Hurst Creek Municipal Utility District is located west of Austin (Aaa) in Travis County (Aaa). Approximately 672 acres of the district are within the Village of the Hills, with the remaining 61 acres within the City of Lakeway (Aa2) and the Village of the Hills extraterritorial jurisdiction. The district is comprised of 734 acres, the majority of which is residential properties that surround The Hills golf course and country club. The district was created in 1979 and is fully built-out. The district's top ten taxpayers make up 9.77% of the total taxable value and include ARC Lakeway, a nursing and custodial care center, and Clubcorp Golf of Texas which owns and operates the Hills golf course. The district's taxable value for fiscal 2012 is $371 million which represents a 4.7% decline in taxable value when compared to the previous year. The decline in taxable value was the second straight year of year over year declines in taxable value and is reflective of the valuation of the housing supply located in the district. Despite the two years of declines in taxable value, the district five year average annual growth in tax base remains positive at 1.4%. Average home prices in the district range from $250 thousand to $500 thousand which far exceeds the state and national medians. We believe the proximity to Austin and the district's built-out nature should allow for stability in tax base. We anticipate any further tax base expansion to be due to appreciation of existing properties. The district purchases its raw water from Lake Travis pursuant to a contract with the Lower Colorado River Authority (LCRA) and pumped to two water treatment plants. Wastewater is treated by a 500 thousand gallon per day treatment plant.

SATISFACTORY FINANCIAL OPERATIONS WITH BELOW AVERAGE YET SATISFACTORY RESERVE LEVELS

Historically the district has maintained satisfactory financial operations and reserve levels. At fiscal year-end 2010 the district's total General Fund balance was a modest $474 thousand (or 22.5% of General Fund revenues). In fiscal 2010 the district received 45% of its General Fund revenues from charges for services and 36% from property taxes. Although the district does not have a formal fund balance policy, historically the district has maintain approximately two months of operating expenditures in reserves. The district's debt service fund balance at fiscal year-end 2010 was $895 thousand (or 68% of anticipated MADS in 2013 of $1.3 million). District officials report a modest operating deficit in the General Fund in fiscal 2011 and an unaudited fiscal year-end total general fund balance of $376 thousand (or 17.5% of General Fund revenues). While current reserve levels are satisfactory and in line with historic levels, reserve levels are below average when compared to similarly rated MUDs. Future credit reviews will continue to examine the district's ability to maintain a strong balance sheet to ensure adequate reserves are maintained. Narrowing of reserves below current levels could have a negative impact on the districts rating. At an election voters within the district authorized a maintenance and operating tax not to exceed $2.50 per $1,000 of assessed valuation. The district currently levies a maintenance and operation tax of $2.00 per $1,000 of assessed valuation.

BELOW AVERAGE DEBT BURDEN

We believe the district's debt profile will remain manageable over the medium term given the average principal payout of debt outstanding and lack of plans for future debt issuances. The district's direct debt burden is below average for single-purpose issuers at 2.2%, represented as a percent of fiscal 2012 assessed valuation. The district's overall debt burden is also below average for similarly rated districts at 5.7% mainly due to overlapping debt issued by Lake Travis Independent School District (General Obligation rated Aa2). In fiscal 2011 the district issued a $1.05 million BAN which was approved through the TCEQ. The district utilized a bond anticipation note (BAN) for purchase of its share of a water intake system from the Lower Colorado River Authority (LCRA) and to meet LCRA closing requirements. Proceeds from the 2012 sale will be used, in part, to redeem the BAN. The rate of principal retirement of debt outstanding is average with 59.5% repaid in ten years. Maximum annual debt service (MADS) of parity debt outstanding of $1.3 million occurs in 2013 before annual principal and interest payments rapidly drop to $786 thousand in 2014 then to $454 thousand in 2017. The district has no variable rate debt or swaps, nor does the district have plans for future debt issuance.

WHAT COULD MOVE THE RATING UP

* Significant tax base expansion due to revaluation of existing properties

* Trend of surplus financial operations bolstering district's reserve levels

WHAT COULD MOVE THE RATING DOWN

* Narrowing of reserve levels below current levels

* Further tax base contraction

KEY STATISTICS:

2012 Full Valuation: $371 million

Acreage: 734

Full Value per Acre: $506,009

Direct debt burden (Calculated from 2012 Full value): 2.2%

Overall Debt Burden (Calculated from 2012 Full value): 5.7%

Principal Repayment (10 years): 59.5%

FYE 2010 General Fund balance: $474 thousand (22.5% of General Fund revenues)

Estimated FYE 2011 unaudited General Fund balance: $376 thousand (17.5% of General Fund revenues)

Debt Service Fund balance at FYE 2010: $895 thousand (68% of MADS in 2013)

Post Sale Parity Debt Outstanding: $8.41 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 31 January 2012. ESMA may extend the use of credit ratings for regulatory purposes in the European Community for three additional months, until 30 April 2012, if ESMA decides that exceptional circumstances arise that may imply potential market disruption or financial instability. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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