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Summary:
Denton County Fresh Water Supply District No. 6, Texas; General Obligation

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Credit Profile		
US$8.825 mil unltd tax road rfdg bnds ser 2011 due 02/15/2028		
Long Term Rating	BBB/Stable	New
Denton Cnty Fresh Wtr Supp Dist #6 GO		
Long Term Rating	BBB/Stable	Affirmed
Denton Cnty Fresh Wtr Supp Dist #6 GO (ASSURED GTY)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
Denton Cnty Fresh Wtr Supp Dist #6 GO		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'BBB' long-term rating and stable outlook to Denton County Fresh Water Supply District No. 6, Texas' series 2011 unlimited-tax general obligation (GO) refunding bonds and affirmed its 'BBB' long-term rating and underlying rating (SPUR), with a stable outlook, on the district's existing GO debt.

The rating reflects our view of the district's general creditworthiness, including its:

- High overall net debt burden, and
- Modest reserves compared with special districts of comparable size and development.

These credit weaknesses are mitigated, in part, by our opinion of the district's:

- Access to Dallas-Fort Worth and location in the Lantana master-planned community, which has helped its rate and direction of growth to remain orderly, as well as the overall project to be successful; and
- Essentially complete development with little additional acreage that still requires utility infrastructure.

An unlimited ad valorem property tax pledge secures the bonds. Officials plan to use bond proceeds to refund portions of the district's debt outstanding, resulting in annual debt service savings.

The district's service area encompasses about 661 total acres, roughly 32 miles north of downtown Dallas. The district, part of the Lantana master-planned community, has utility infrastructure on essentially all of its developable acreage. Development consists of more than 1,900 completed single-family homes.

Assessed value (AV) has historically experienced, in our opinion, healthy growth. AV increased by 48% since fiscal 2007 to $564.6 million in fiscal 2010. Fiscal 2011 AV, however, has declined by 2% to $551 million. Because of its mostly residential nature, no concentration exists among the district's property tax base: The 10 leading taxpayers accounted for about 2.6% of fiscal 2010 AV. The district levies, what we consider, a moderate property tax rate of $1 per $100 of AV. Including all overlapping jurisdictions, service area residents are subject to, what we view as, a moderate total tax rate of $3 per $100 of AV.

The district ended fiscal 2010 with an unreserved general fund balance of approximately $766,000, or a low 20% of operating expenditures, which is, what we consider, low compared with the levels of special districts of comparable size and development. The district experienced a general fund decline of nearly 50% in fiscal 2010. Management attributes this drawdown mainly to capital projects, most significantly new metering systems for all homes in the district, as well as other capital projects. Water and sewer service fees (59%) and property taxes (21%) are the general fund's primary revenue sources. The debt service fund balance was slightly less than $3.6 million at fiscal year-end 2010, or, in our view, a good 70% of the district's maximum annual debt service scheduled to occur in 2026. Property taxes generated, in essence, all debt service fund revenues.

The overall net debt burden remains, in our opinion, a high 18.6% of fiscal 2011 AV. In our view, amortization is slower than average with officials planning to retire 42% of principal over 10 years and 100% by 2035. The district currently has $78.235 million of authorized, but unissued, debt remaining. District representatives indicate they do not plan to issue additional debt within the next two years.

Outlook

The stable outlook reflects Standard & Poor's opinion that the district's essentially complete development and lack of additional debt plans will likely offset pressures associated with, what Standard & Poor's considers, the high overall net debt burden. Management's maintenance of at least, what we regard as, adequate reserves and its goal not to issue additional debt unless sufficient property tax base additions are in place to offset that debt are important to maintaining or improving the rating

Tyler Montrone contributed to this report.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Methodology And Assumptions: Rating Unlimited Property Tax Basic Infrastructure Districts, March 17, 2009

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