

NATIONAL MUNICIPAL RESEARCH, INC.
ANALYSIS OF FISCAL CONDITION

Avery Ranch Road District No. 1
Unlimited Tax Refunding Bonds Series 2007

Avery Ranch Road District was formed in 2001 in order to construct a 4-lane 1.67 mile road known as "Avery Ranch Boulevard". The district is permitted to issue up to \$17 million new money and \$25 million refunding bonds.

We chose to look at this district because of the quiriness of the financial statements. On their face, liabilities exceed assets dramatically. This is because liabilities are counted on the district's financial statements while assets are counted on Williamson County's financial statements. It is not a reflection of true deficit, rather the quiriness of the financing structure.

The road was completed in 2003 and conveyed to Williamson County. Avery Ranch district is considered a "blended component unit" of Williamson County for accounting purposes. The district shows debt and property tax collections on its own audit, but the asset for the road as well as on-going maintenance are the responsibility of the county. As a result, the district's financial statements look out of whack, since only liabilities are shown.

The district comprises 1,547 acres of land with the city of Austin's extra-territorial-jurisdiction (an area outside city limits for the purpose of infrastructure planning). The district is just south of Cedar Park and west of Round Rock within Williamson County. It is a master planned community with

Considered one of the fastest growing communities in Central Texas in the 2004-2007 period.

mostly residential single family housing; but also includes 56 acres for commercial and some multi-family.

Ultimate build out is expected to include 3,000-4,000 homes. At the time of this bond sale about 2,500 homes had been sold (although one blog comment indicated that sales were to investors rather than end-users)

Taxable values as of January 1, 2009 were about \$769 million, up from \$587 million the year prior — a typical progression when a new district is building out. However evidence of the slowdown is the official statement's initial projection for 2007 of \$806 million.

Tax rates are also following the trajectory of a growing district — with rates at 27.5 cents/\$100 value in 2006 to 23 cents in 2007 to 17.5 cents in 2008. The total tax bill of less than \$3.00 is reasonable for this area.

District's debt burden on the certified 2006 valuation was 6.8% which has come down at least 1%, given the increase in values.

Construction of homes in the starter price range are currently active since

there is a tax benefit that expires December 1, 2009 (which may be extended by Congress). The lower end of the housing market had a significant drop-off, given the subprime meltdown so there has been lower inventory of these homes. A key builder in the district, D.F. Horton is building rapidly in numerous communities in the immediate area with 25 under construction in Avery Ranch (as of July, 2009).

Competing communities are planned or in construction in the area. It remains to be seen whether each of these projects will be able to fill their coming inventory of houses, apartments and commercial spaces. The potential exists for excess inventory in the area after the starter home tax benefit expires. Some homes were bought by investors hoping to turn over the property.

Samsung Austin Semiconductor, Polycorn, Inc. and Lockheed Martin have most recently declared layoffs in the immediate community. Dell Computer is a major employer in Round Rock, to the east of the district. Dell has faced slowdowns in sales and Round Rock is wrestling with a significant drop in sales taxes which make up more than half of their budget. As a result, area property taxes are likely to increase in the face of declining sales taxes and flattening real estate values.

August 2009

CREDIT OPINION

The probability of default is low. The district is single purpose and primarily exists as a financing vehicle for an already completed road. Of concern is a higher level of investor home purchases which has resulted in a higher number of homes on the market in the current environment. Competing planned communities are in various phases. Given the economy, watch for elevated delinquencies and foreclosures. Also, as a result of the expiring tax advantage (which may be extended) builders have been putting up spec homes again at the first-time buyer level.

KEY FACTS

Dated Date:	June 1, 2007
Original Issue Amount:	\$3,535,000
Final Maturity:	August 15, 2022
Sample CUSIP:	05364RDD8
Call Features:	August 15, 2017
Security:	unlimited ad valorem tax
Community Website:	averyranch.com
Sector:	special district general obligation
Auditor's Opinion:	2008 (clean)
Bond insurer:	AMBAC

National Municipal Research, Inc. is a New York City-based independent consulting and research company focused on U.S. state and local government finance. For custom research and other services, visit NationalMunicipal.com. For posts and publications like this, visit our blog, ThePublicPurse.com.

Copyright © 2009 National Municipal Research, Inc. This report is an opinion of National Municipal Research, Inc. and not a recommendation to buy or sell bonds. This report and opinion are based on publicly available information. We make every effort to assure accuracy but cannot guarantee information from third-party resources. If you use or quote this material we ask that you kindly reference this source.