STANDARD & POOR'S RATINGS SERVICES
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## Summary:

# Parker Water & Sanitation District, Colorado; General Obligation


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**Summary:**

# Parker Water & Sanitation District, Colorado; General Obligation

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| Parker Wtr & San Dist GO rfdg bnds | | |
| *Long Term Rating* | AA/Stable | Upgraded |

## Rationale

Standard & Poor's Ratings Services raised its rating on Parker Water and Sanitation District, Colo.'s series 2012 general obligation (GO) refunding bonds to 'AA' from 'AA-'. The outlook is stable.

The upgrade reflects continued strong financial performance despite a reliance on tap fees and other revenues related to new development. Based on projections provided to us, we also believe that this strong financial performance should be sustainable, barring an unforeseen and persistent drop in tap fees.

The rating reflects our view of the district's:

- Tax base supported by very strong household incomes and per capita market values;
- Primarily residential and very diverse customer base;
- Good to strong debt service coverage (DSC) on its revenue bonds; and
- Very strong liquidity position.

Partly offsetting the above credit strengths, in our view, is the district's high overall net debt burden (GO debt) per capita and the district's reliance on tap and other growth-related fees to maintain strong DSC.

The bonds are general obligations of the district payable from unlimited ad valorem property taxes. In addition, the bonds may be paid from other available district funds, according to the district.

Founded in 1962, the district owns and operates a water and sanitary sewer system that serves an estimated population of 45,700 in Douglas County. The service area encompasses approximately 23,000 acres within the town of Parker, the city of Lone Tree, the city of Castle Pine North, and unincorporated areas. Parker's median household effective buying income is very strong, in our view, at 171% of the national level. The district's assessed valuation (AV) for the 2015 collection year grew 2.5% to $473.3 million. Estimated actual value was $4.3 billion, or $94,688 per capita, which we view as very strong. The district's tax base is predominantly residential, with 62% of AV classified as residential, resulting in a very diverse tax base, with the top 10 taxpayers representing 7.3% of 2014 collection year AV.

In our opinion, the overall net debt burden is moderately high as a percentage of collection year 2015 estimated actual value, at 6%, and high on a per capita basis, at $5,590. However, given the district's very strong market value per capita and above-average income indicators, the debt burden is manageable, in our view.

The customer base is primarily residential and very diverse, in our view. Residential customers account for about 75% of the district's usage. We consider the customer base very diverse, since no single customer represents more than 2% of sales. From 2004-2014, the compound annual growth rate of the district's accounts has been 3%.

Water supply currently consists of groundwater treated with chlorine. A 10 million gallon per day (mgd) water treatment plant treats water from the recently completed Rueter-Hess Reservoir, which, according to management, should provide about 20% of the district's native water supply needs. The district also operates two advanced wastewater treatment plants with aggregate treatment capacity of four mgd. Future capital needs as reported in the district's 2016-2025 capital plan total $196 million, mostly funded with cash on hand, except for projects related to completion of the "WISE" project, of which the district is the lead agency coordinating construction of a new pipeline. In addition, we understand the district is in the preliminary design phase for expansion of two mgd at its wastewater treatment plant, with construction expected to begin in 2018 or 2019.

Historical financial performance has generally been at least good, in our view. Annual DSC of all revenue and GO debt has stayed above 1.4x since 2011, but was much stronger, at 2.1x, at the fiscal year ended Dec. 31, 2014. Our calculation of DSC is based on gross operating revenues and property taxes levied, less operating and maintenance expenses. When eliminating tap fees, DSC, calculated on the same basis as done above, generally hovers around 1x. Unrestricted cash and investments have represented no less than 1,350 days' cash since 2011, and was about 1,900 in 2014 (equivalent to $80.6 million). The district's projections indicate that future financial performance should remain comparable to historical performance, barring any unforeseen and persistent reductions in operating revenues and tap fees.

## Outlook

The stable outlook reflects our opinion that the district's good to strong financial performance should remain sustainable in future years, barring any unforeseen reduction in operating revenues or tap fees. We do not expect to change the rating during the current two-year outlook period.

### Upside scenario

Since the current rating already reflects the district's currently strong liquidity and overall financial performance, we do not expect to raise the rating further, at least within the current two-year outlook horizon.

### Downside scenario

Because of the dependence on annual tap fees and other growth-related revenues to generate strong DSC and subsidize the district's capital needs, the rating or outlook could be pressured downward if significant reductions in these revenues result in significantly lower DSC or liquidity ratios.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006