S&P Global
Ratings

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Summary:

Parker Water & Sanitation District, Colorado; Water/Sewer

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Credit Profile		
US$40.0 mil wtr and swr enterprise rev bnds ser 2018 dtd 01/30/2018 due 11/01/2042		
Long Term Rating	AA+/Stable	New
Parker Wtr & San Dist wtr & swr (AGM)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Rationale

S&P Global Ratings raised its underlying rating (SPUR) to 'AA+' from 'AA' on Parker Water and Sanitation District, Colo.'s outstanding water and sewer enterprise revenue bonds. At the same time, S&P Global Ratings assigned its 'AA+' long-term rating to the district's series 2018 water and sewer enterprise revenue bonds. The outlook is stable.

The ratings reflect an extremely strong enterprise risk profile and a very strong financial risk profile. The upgrade reflects the district's continued financial strength despite a dependence on growth fees. The district's liquidity position is extremely strong, which we believe offsets the risk associated with a decline in customer growth.

The enterprise risk profile reflects our view of the district's:

- Service area participation in the strong Denver-Aurora-Lakewood metropolitan statistical area;
- Affordable service rates in the context of the service area's very strong income levels;
- Very low industry risk as a monopolistic service provider of an essential public utility; and
- Good operational management assessment, which reflects management's ongoing assessment of the system's assets, annual rate-setting practices, and public outreach.

The financial risk profile reflects our view of the district's:

- Extremely strong all-in coverage of about 2.69x in fiscal 2016, although we understand strong metrics are heavily reliant on growth-related fees;
- Extremely strong liquidity, with about $104 million of cash for fiscal 2016, equivalent to about 2,069 days of operating expenses;
- Large capital plan that consists of growth-related projects, with a manageable pro forma debt-to-capitalization ratio of about 34.7%, which includes the expected 2023 bond issuance; and
- Good financial management represented by long-term capital planning and practices that we believe are meaningful despite the lack of formalization.

The series 2018 water and sewer enterprise revenue bonds will be used to fund system improvements.

We view the bond provisions as credit neutral. The bonds are secured by a pledge of the district's net revenues. The district had about $193 million of debt outstanding including the district's 2012 general obligation (GO) bonds, which represent about 45% of the district's total debt as of December 2016. Key bond provisions include a rate covenant set at 1.1x annual debt service and an additional bonds test set at 1.1x maximum annual debt service. The series 2018 bonds will not have a debt service reserve. We view this as credit neutral because the system has historically maintained an extremely strong liquidity position.

Enterprise risk

The district's service area encompasses about 27,600 acres in the northeastern portion of Douglas County, about 20 miles southeast of the city and county of Denver. The district serves the city of Parker, a portion of Lone Tree, Castle Pines North, and an unincorporated portion of the county. The district serves a population of about 50,000, with an expected buildout of more than twice this population by 2035. We view the service area's income levels to be very strong based on the city of Parker's median household effective buying income (MHHEBI), which was 175% of the national median for 2016. For November 2017, the city and county unemployment rate was about 2.6%, lower than the nation's 4.1% rate.

The district's customer base is primarily residential and very diverse, in our view. Residential customers account for about 75% of the district's usage. The district currently serves about 19,300 single-family equivalents (SFEs) and expects a buildout of about 47,000 SFEs. Customer growth has ranged between 1.0% and 4.2% annually. We consider the customer base to be very diverse based on the leading 10 customers contributing about 11% of total operating revenues for fiscal year 2016. The largest employers in Douglas County are the Douglas County School District; Charles Schwab; and CH2M, a global project delivery company.

We view the district's market position as good given the affordable service rates in the context of the service area's very strong income metrics and low county poverty rate. The district bills its customers monthly for water and wastewater service. Water and sewer charges consist of a monthly fixed charge and a volumetric charge-based water use. For a typical residential customer using an average of 9,400 gallons of water per month, the monthly-equivalent bill is affordable, at about 1.7% of the city's MHHEBI. The county's poverty rate as reported by the U.S. Department of Agriculture is 3.7%, which we view as low.

Based on our operational management assessment, we score the district a '2' on a six-point scale in which '1' is the strongest. This indicates, in our view, that operational and organizational goals are generally well aligned, even if some challenges exist. The board considers/approves rate adjustments on an annual basis, and the district expects to have another rate study completed in 2019. The district obtains water supply from a variety of sources including wells, Cherry Creek water rights, Water Infrastructure Supply Efficiency (WISE) water, and Reuter Hess Reservoir water. The district plans to decrease the amount of groundwater pumped and increase Reuter Hess Reservoir water treatment. Denver basin wells can supply 16 million gallons per day (mgd), Reuter Hess Water Purification Facility can treat 10 mgd, and WISE water can supply 1.0 mgd. Total current system water supply capacity is 30 mgd, which exceeds the peak daily demand of about 17 mgd. Management has ample water supply and enough treatment capacity to meet demand. In addition, the district operates two advanced wastewater treatment plants with aggregate treatment capacity of 4 mgd. The average and peak daily demand in 2017 was 3.0 mgd and 3.8 mgd, or 75% and 95% of capacity, respectively. We understand there were no combined sewer system overflows during the past two years and one minor sewer system overflow. A portion of the bond proceeds will be used to expand the North Wastewater Reclamation Facility by 2 mgd. This additional capacity will allow the district to meet demand for at least the next 10 years.

Consistent with "Methodology: Industry Risk," published Nov. 19, 2013, we consider industry risk for the system to be very low, the most favorable assessment possible on a '1' to '6' scale, with '1' being the best.

Financial risk

We view the district's all-in coverage as extremely strong but dependent on one-time developer fees and growth-related revenue. We analyze both total all-in coverage including GO debt and excluding GO debt service payments, and the district has a track record of maintaining extremely strong all-in coverage with growth fees and adequate coverage without growth fees. We believe the adequate all-in coverage is offset by the extremely strong liquidity position. Excluding GO debt service and property tax revenue pledged to GO debt, we calculate all-in coverage was 3.15x, 3.39x, and 2.69x for fiscal years 2014 through 2016, a range that we consider extremely strong. Excluding growth fee revenue, all-in coverage was, 1.34x, 1.12x, and 1.02x, which we consider to be adequate. Lower coverage in fiscal 2016 is a result of higher debt service due to the prepayment of about $3.4 million of 1997 and 2000 Colorado Water Resources Power and Development Authority loans. In addition, the rise in total operating expenses in fiscal 2016 was related to an increase in employee benefit expense premiums, professional services, and support service, which were recategorized.

We expect all-in coverage to stay stable during the next five years based on management's track record of rate increases and long-term capital planning, although a decline in customer growth could lead to thinner coverage metrics. Based on unaudited 2017 financials, we expect coverage to stay extremely strong at about 3.9x including growth fees and 1.7x excluding growth fees. Furthermore, based on the district's 2017 rate study projections, coverage is expected to stay in line with historic figures. The district's rate study includes inflationary revenue and expenditure increases and future WISE water expenses.

The district has historically maintained an extremely strong liquidity position, and we anticipate it will likely remain extremely strong. At the end of fiscal year 2016, the district held unrestricted cash and investments of about $104 million, or over 2,000 days of operating expenses. We understand that management expects to fund about $61 million during the next 10 years from unrestricted cash. Based on our projections, which include about $16 million of cash funding annually, unrestricted cash is expected to stay above $120 million during the next five years.

The district's capital plan is large, at about $224 million during the next 10 years, and consists of mostly growth-related projects that can be deferred if growth does not materialize. The district's pro forma debt-to-capitalization ratio is manageable, at about 34.7%; this includes the expected $18 million bond issuance in 2023. The 2018 bonds are expected to fund $13.0 million for the Raw Water Resource Centralization project and $29.5 million of the Cherry Creek Interceptor project and North Water Reclamation Facility expansion project. The district expects to fund about 70% of the 10-year capital improvement plan (CIP) from pay-go-funding. Given the district's extremely strong liquidity position and track record of rate increases, we expect cash to stay stable as the district spends about $16 million annually on the CIP.

Based on our financial management assessment, we score the district as a '2' on a six-point scale in which '1' is the strongest. In our view, financial practices and policies exist in most areas, but management does not formalize all of them. Revenue and expense assumptions are reasonable although largely based on inflationary adjustments.

Management provides monthly interim financial reports to the board that consist of budget-to-actuals, consumptions, sales, and growth. Management focuses on the district's annual budget and reviews long-term financial projections, which are updated about every three years. Furthermore, management annually updates a detailed 10-year CIP and complies with general accepted accounting principles (GAAP).

Outlook

The stable outlook reflects our opinion that financial performance should remain sustainable in future years, barring any unforeseen reduction in operating revenues or growth fees.

Upside scenario

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

Downside scenario

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

Ratings Detail (As Of January 9, 2018)		
Colorado Wtr Resource & Pwr Dev Auth, Colorado		
Parker Wtr & San Dist, Colorado		
Colorado Wtr Resource & Pwr Dev Auth (Parker Wtr & San Dist) wtr (AGM)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.