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Summary:

Parker Water & Sanitation District, Colorado; Water/Sewer

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Credit Profile		
US$53.875 mil wtr & swr enterprise rev rfdg & imp bnds ser 2020 due 11/01/2044		
Long Term Rating	AA+/Stable	New
Parker Wtr & San Dist wtr & swr		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Parker Water and Sanitation District, Colo.'s series 2020 water and sewer enterprise revenue refunding and improvement bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on all outstanding water and sewer enterprise revenue bonds. The outlook is stable. The ratings reflects our view of the district's extremely strong service area economy, very diverse customer base, continued customer growth, and very strong financial metrics.

The series 2020 bond proceeds will refund the district's series 2010A bonds and finance capital improvements to the system, including the expansion of the district's North Water Reclamation Facility (NWRF). The district currently has about $206 million of outstanding debt obligations, including about $53.4 million of water and wastewater revenue bonds, $80.8 million of general obligation (GO) bonds, and about $71.8 million of loan obligations. Approximately 38% of the total outstanding debt represents the district's series 2012 GO bonds, payable from unlimited ad valorem property taxes and other available district funds.

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

- Service area participation in the strong Denver-Aurora-Lakewood metropolitan statistical area, very strong income indicators, and diversifying and growing customer base;
- 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, represented by sufficient water supply to meet long-term demand, continued maintenance to ensure integrity of the system, and expansion of the NWRF to meet continued demand.

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

- Extremely strong all-in coverage at above 2.0x during the past three fiscal years, although we understand strong metrics are heavily reliant on growth-related fees;
- Extremely strong liquidity, with about $141 million of cash for fiscal 2018, equivalent to about 2,500 days of operating expenses;

- Large capital plan that consists of growth-related projects, with a manageable debt-to-capitalization ratio at about 30% that we expect to rise but stay manageable given future debt plans; and
- Good financial management assessment, represented by regularly updated long-term financial and capital plans, a formal investment policy, and other, less formalized financial guidelines.

We view the bond provisions as credit neutral. The bonds are secured by a pledge of the district's net revenues. 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 2020 bonds will not have a debt service reserve; however, we view this as credit neutral given the system has historically maintained an extremely strong liquidity position.

Enterprise risk

The district's service area encompasses about 27,900 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 continues to see population growth, with population reaching about 55,000 in 2019. The district expects buildout of more than twice this population by 2050. We view the service area's income levels to be very strong based on the town of Parker's median household effective buying income (MHHEBI), which was 176% of the national median for 2018. Parker's unemployment rate has historically been below both the state and national levels. In November 2019, the town's unemployment rate was 2.1%, compared with the state's 2.4% rate and the national rate of 3.5%.

The district's customer base is primarily residential and very diverse, in our view. The district currently serves about 20,900 single-family equivalents, which is about 45% of the total projected system buildout. During the past five years, customer growth has ranged between 3.0% and 4.2% annually. Residential customers account for about 70% of the district's usage. 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 2018, with the leading customer representing less than 2%. The leading customer is the Town and Country Village Homeowners Assn. (HOA), followed by the town of Parker and the Villages of Parker HOA. Employment in Douglas County has continued to develop and diversify with opportunities in finance, health care, engineering, and technology. In 2018, the largest employers in Douglas County were the Douglas County School District, Charles Schwab, and Echostar Communications.

In our view, the district's water and sewer rates are affordable in the context of the service area's very strong income metrics and the low county poverty rate. 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 10,000 gallons of water per month and about 4,500 gallons of water for sewer, the combined monthly equivalent bill is affordable, at about 1.5% of the town's MHHEBI. The county's poverty rate as reported by the U.S. Department of Agriculture is 3.2%, which we view as low. The district reviews rates annually, works with an external rate consultant, and has modestly increased rates annually during the past five years. On average, rate increases for water have been about 3% annually and for sewer about 2% annually. The district plans to undergo a full cost-of-service study in 2020 and to modestly increase rates annually and potentially move irrigation customers over to budget-based rates.

Based on our operational management assessment, we score the district a '2' on a six-point scale in which '1' is the strongest. A score of a good indicates the district's sufficient water supply to meet long-term demand, continued efforts to diversify water supply, and efforts to increase wastewater treatment plant capacity to support increasing flows. 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), and alluvial wells 3 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 2018 was 3.1 mgd and 3.9 mgd, or 77% and 97% of capacity, respectively. The wastewater system experienced two minor sewer system overflows in 2018; however, there were no fines associated. In order to comply with environmental regulations and treat increasing flows, the district is expanding its NWRF by 2 mgd to a total combined capacity of 6 mgd. Construction commenced in August 2019 with an anticipated completion date in December 2021. 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. All-in coverage is our internally adjusted debt service coverage metric that we believe best tracks the use of every dollar of utility operating revenue, regardless of lien, accounting treatment, or ultimate purpose. In fiscal 2018, our all-in coverage metric included the fixed minimum payment for WISE water. In addition, we analyze both total all-in coverage excluding property tax revenue and GO debt service payments, because the series 2012 GO bonds are payable from unlimited ad valorem property taxes and other available district funds, and including property tax revenue and GO debt service. In both scenarios for fiscal years 2016-2018, all-in coverage was extremely strong at above 2.0x, albeit however modestly stronger when excluding property tax revenue and GO debt service obligations. In addition, we performed a stress test by excluding all one-time developer and growth-related fees. The district's all-in coverage without growth-related fees has increased to above 1.0x during the past two fiscal years. The growth-related fees are driving the extremely strong coverage metrics above 2.0x. In 2018, when excluding property tax revenue, one-time growth-related fees were about 40% of total revenue and 34% when including property tax revenue. Offsetting the reliance on one-time growth-related fees to meet extremely strong coverage metrics is the district's extremely strong liquidity position. Based on our analysis of management-provided projections, we do not expect coverage metrics to materially deviate from recent trends during the next five fiscal years.

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 2018, the district held unrestricted cash and investments, including about $6 million from the rate stabilization fund, of about $141 million, or over 2,500 days of operating expenses. This is up from about $86 million, equivalent to 2,200 days of operating expenses, in fiscal 2014, a figure that is still extremely strong. Management does not expect liquidity to rise any higher than current figures given approximately 64% of the 10-year capital plan will be funded from rate revenue and unrestricted cash. Based on our analysis of management-provided projections, about $18 million annually will be funded from rate revenue and cash, with projected cash dipping no lower than $130 million.

The district's capital plan is large, at about $281 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 30%; this includes the 2020 new money, though we would expect this figure to rise given planned debt issuances in 2023 and 2026. The capital plan includes the approximately $63 million NWRF expansion project. This project will be funded from about $14 million of remaining 2018 bond proceeds as of October 2019 and $15 million from the series 2020 new-money component. In addition, during the next five years, about $152 million is attributable to operations capital, engineering capital, and enterprise services capital construction. It is our understanding that about 35% of the 10-year capital plan will be funded from bond proceeds, with the remaining funded from rate revenue and unrestricted cash.

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 annually with the district's rate consultant. 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 revenue or growth fees.

Upside scenario

We could raise the rating if all-in coverage without growth-related fees is sustained at a level we consider good, representing less reliance on one-time revenue to meet extremely strong coverage; if liquidity is sustained at an extremely strong level during the life of the capital plan and changing environmental regulations; and if financial policies are formalized.

Downside scenario

Because of the dependence on annual growth fees and other growth-related revenue 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 3, 2020)		
Parker Wtr & San Dist wtr & swr (AGM)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
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	Affirmed

Ratings Detail (As Of January 3, 2020) (cont.)

Many issues are enhanced by bond insurance.