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Ratings

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Summary:

Parker Water & Sanitation District, Colorado; General Obligation

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Credit Profile		
US$79.25 mil GO rfdg bnds ser 2020 due 08/01/2035		
Long Term Rating	AA+/Stable	New
Parker Wtr & San Dist GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' rating to Parker Water & Sanitation District, Colo.'s proposed estimated $79.25 million series 2020 federally taxable general obligation (GO) refunding bonds. The outlook is stable.

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. Proceeds from the series 2020 bonds will be used to refund certain bonds previously issued by the district for annual debt service savings.

Credit Overview

The district has exhibited considerable growth in the tax base, which has nearly doubled in value over the past five years, benefitting the district's economic, financial, and debt ratios. However, the strong financial performance reflects a corresponding reliance on tap fees and other growth-related revenue, which we view as a potential vulnerability.

The strength of the district's financial metrics provides ample cushion, in our view, to mitigate short-term disruptions from the COVID-19 related recession. S&P Global Economics acknowledges a high degree of uncertainty related to the effects of COVID-19, including the rate of spread and peak of the outbreak. We believe measures to contain COVID-19 have pushed the economy into recession. We anticipate the district's revenues may decline somewhat for fiscal 2020 or beyond, though ultimately our expectation is that management will continue to manage the system and maintain strong coverage levels. The district, as of fiscal 2019, has approximately $150 million, or over six years cash on hand, which we believe provides sufficient cushion for short-term disruptions resulting from changing economic conditions, the moratorium on shutoff remedies and deferred property tax due dates. Additionally, management has instituted its contingency plans to ensure minimal disruptions in service provided. While we continue to monitor events related to COVID-19, we do not anticipate it affecting the district's ability to maintain budgetary balance or debt service payments.

The stable outlook reflects our opinion that the district's tax base and market value will remain at extremely strong levels. Financial performance should likewise remain sustainable in future years, barring any unforeseen reduction in operating revenue or tap fees. In addition, we anticipate the strong financial position could withstand a short-term decline in revenue from challenges, particularly uncertainty related to COVID-19, and the recession.

The rating reflects our view of the district's:

- Large and very diverse tax base in the strong Denver-Aurora-Lakewood metropolitan statistical area, which is supported by very strong incomes and extremely strong per capita market values;
- Primarily residential and very diverse customer base;
- Extremely strong all-in debt service coverage (DSC) on its GO and revenue bonds combined; and
- Extremely strong liquidity position.

Partly offsetting the above credit strengths, in our view, is the district's reliance on growth-related fees to maintain its strong all-in DSC and moderately high overall net debt burden.

Environmental, social, and governance (ESG) factors

Overall, we believe that management has mitigated most of the district's ESG-related risk by adopting, adhering to, and adjusting its operating and financial policies and procedures. We view the district's ESG factors as not being significantly different from those of its peers. The district has good management practices which mitigates governance risks when compared to peers. Management has been making a number of investments across its facilities and distribution network to reduce the system's environmental risks.

Stable Outlook

Downside scenario

Because of the dependence on annual tap fees and other growth-related revenue to generate strong all-in DSC and subsidize the district's capital needs, the rating or outlook could be pressured downward if significant reductions in these revenue result in significantly lower coverage or liquidity ratios. Economic contraction from the effects of COVID-19-related recession could also negatively affect the district if it results in a significant increase in debt ratios due to a meaningful decline in market value.

Upside scenario

Since the current rating already reflects the district's extremely strong tax base, and robust liquidity and overall financial performance, we do not expect to raise the rating within the current two-year outlook horizon. While growth contributes to the strength of the district, it also creates potential pressures to keep up with population gains.

Credit Opinion

Founded in 1962, the district owns and operates a water and sanitary sewer system that serves an estimated population of nearly 55,000 in Douglas County. The service area encompasses approximately 28,000 acres within the town of Parker, the city of Lone Tree, the city of Castle Pine North, and unincorporated areas. Parker has seen remarkable growth over the past two decades, with its population increasing by tenfold with over 50 annexations and continued gains in residents and job opportunities. The result has been considerable increases in net assessed value (AV) and actual market value as well associated revenue.

Parker's median household effective buying income is very strong, in our view, at 180% of the national level. The district's AV for the 2020 collection year grew to approximately $766 million from just over $500 million five years prior, representing a cumulative 40% increase.

Estimated actual market value was $8.4 billion, or $153,000 per capita, which we view as extremely strong. The district's tax base is predominantly residential, with over 60% of AV classified as residential, resulting in a very diverse tax base, with the top 10 taxpayers representing 6.9% of 2020 collection year AV.

The overall net debt burden has been moderately high in our view due to rapid growth in the tax base, and has been approximately 6.5% of market value in 2020. We note that 85% of overall net debt is due to overlapping debt from other entities within the same geographic tax base. The district currently has no authorized but unissued voter authorization for GO debt, and it has no plans to issue any additional GO debt in the future. Given the district's extremely strong market value per capita and above-average income indicators, the debt burden is manageable, in our view. There are continued debt needs (primarily on the utility revenue side) related to growth pressures in the region but we do not believe these will pressure the rating.

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%. Employment in Douglas County has continued to develop and diversify with opportunities in finance, health care, engineering, and technology. The largest employers in Douglas County were the Douglas County School District, Charles Schwab, and Echostar Communications.

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 has been extremely strong at above 2.0x historically on its GO and revenue bonds combined. Growth-related fees drive the extremely strong coverage metrics above 2.0x in our view; and the district's all-in coverage without growth-related fees has been slightly above 1.0x in recent years.

The district has historically maintained an extremely strong liquidity position, and we anticipate it will likely remain extremely strong. At the fiscal year ended Dec. 31, 2019 (unaudited), unrestricted cash and investments totaled approximately $150 million, which equates to over six years cash on hand. 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%.

For more information on the district's utility revenue bond rating, see our rating report published on Jan 3, 2020 on Ratings Direct.