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## Summary:

# Colorado Water Resource and Power Development Authority Parker Water and Sanitation District; Water/Sewer

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# Colorado Water Resource and Power Development Authority Parker Water and Sanitation District; Water/Sewer

### Credit Profile

Parker Wtr & San Dist wtr & swr (AGM)

*Unenhanced Rating*

AA(SPUR)/Stable

Upgraded

#### **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.

## Rationale

Standard & Poor's Ratings Services raised its ratings to 'AA' from 'AA-' on both Parker Water and Sanitation District, Colo.'s series 2012 water and sewer enterprise revenue refunding bonds and the Colorado Water Resource and Power Development Authority's 2010 series A water resources revenue bonds, which were issued for the district. 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.

Our rating also reflects our view of the district's:

- Primarily residential and very diverse customer base;
- Service area with strong income indicators;
- Good-to-strong debt service coverage (DSC); and
- Very strong liquidity position.

Partly offsetting the above credit strengths, in our view, is the district's reliance on tap and other growth-related fees to maintain strong DSC.

The bonds are secured by a pledge of the district's net revenues. Other bond provisions include a 1.1x rate covenant and a 1.1x maximum annual debt service (MADS) additional bonds test.

Parker Water and Sanitation District owns and operates a water and sanitary sewer system that provides service to an estimated population of about 50,000 in Douglas County. Eighty-two percent of the ultimate service base will be in the

town of Parker, 10% in the city of Lone Tree, 5% in the city of Castle Pine North, and the remaining 3% in unincorporated areas. Parker's median household effective buying income in 2014 was 171% of the national level, which we view as very strong.

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 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 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.

Historical financial performance has generally been at least good, in our view. Annual DSC of all revenue and general obligation (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. Unrestricted cash and investments has 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. 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. When eliminating tap fees, DSC, calculated on the same basis as we do above, hovers more around 1x.

## **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.

### **Upside scenario**

Since the current rating already reflects the district's current strong liquidity and overall financial performance, we do not foresee the rating improving, 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: Water And Sewer Ratings, June 25, 2007
- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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