Business Wire
A Berkshire Hathaway Company

Fitch Affirms Washington County Water Conservancy Dist's, UT Water Revs at 'AA'; Outlook Stable

December 18, 2015 01:40 PM Eastern Standard Time

SAN FRANCISCO--(BUSINESS WIRE)--Fitch Ratings has affirmed the following Washington County Water Conservancy District, UT (the district) obligation's at 'AA':

--$46.7 million revenue bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are payable from net revenues of the district's combined water and hydroelectric system.

KEY RATING DRIVERS

DIVERSE REVENUES AND SOLID CONTRACTS: The revenue streams supporting water system operations are diverse, including water service charges, property taxes and hydroelectric revenues. The contract includes certain step-up provisions that protect against non-payment by one of the district's eight wholesale customers.

AMPLE WATER SUPPLY: Approximately 55% of district water rights are allocated for sale under take or pay contracts and a regional water sales agreement. The remaining rights will support future growth. Minimum charges from the existing sales are sufficient to support operations and debt costs.

STRONG WHOLESALE OPERATIONS AND PLANNING: The rating reflects the predominantly wholesale water system's strong management, stable operations, and multi-year financial and facilities planning.

RELIANCE UPON VARIABLE IMPACT FEES: The district's solid all-in debt service coverage is reliant upon impact fees, which have been relatively volatile. However, this is mitigated by the district's still solid debt service coverage without the fees and robust cash balances.

AFFORDABLE DEBT; MANAGEABLE CAPITAL PLAN: Debt levels are affordable and capital needs are manageable as the district has adequate water sources, surplus system capacity, predominantly new infrastructure, and faces no regulatory issues. Very large long-term supply projects depending on growth will be financed with a mix of water charges, impact fees, and borrowing.

STABILIZING SERVICE AREA GROWTH: The service area's recent history of rapid population, employment, and assessed valuation growth has slowed somewhat giving the district additional flexibility regarding long-term capital projects.

RATING SENSITIVITIES

CONTINUED SOLID DSC: The Stable outlook reflects Fitch's expectation that the district will continue to maintain solid debt service coverage while carrying out a regionally significant long-term capital portfolio.

CREDIT PROFILE

The district is the primary provider of wholesale water in Washington County (general obligation bonds rated 'AA'; Stable Outlook). The county is located in the southwest corner of the state bordering Nevada and Arizona with a population of about 150,000. The county is home to a large number of retirees and second homes and its economy is dominated by retail, tourism and distribution operations. The county's location along the I-15 freeway makes it an attractive location for distribution facilities.

STABLE WHOLESALE AGREEMENTS AND DIVERSE REVENUES

The majority of district water system revenues are generated by a regional water sales agreement with eight of its wholesale water customers. The regional water sales agreement provides revenues from a water availability charge (a one-time impact fee imposed on new developments), a monthly water development surcharge applied to all existing equivalent residential units, and a wholesale delivery charge based on the number of units of water delivered to each municipality. In the event that a municipality fails to make a delivery charge payment, the other municipalities would be required to make up the difference (up to 25% over their additional contracted amount).

Further revenue diversity is provided by the district's covenant to levy and collect as much of the ad valorem tax of 0.001 per $1.00 of all taxable assessed valuation as required to pay operation and maintenance (O&M) costs. While the receipts from such taxes are not pledged to the revenue bonds, they are available for revenue bond debt service. Tax collections in fiscal 2014 totaled $10.2 million, as compared to system operating and general fund expenditures of $7.7 million (net of depreciation).

The district owns and operates the Quail Creek Hydroelectric Plant and the Pah Tempe Hydroelectric Plant. All electricity generated by the plants is sold to the Dixie Escalante Rural Electric Association and Hurricane City under a contract expiring in 2019. Power sales generated about 7.9% of total proprietary fund operating revenues in fiscal 2014. The district does not have any hydroelectric debt outstanding.

STRONG SUPPLY AND STABILIZING SERVICE AREA

The district provides water on a wholesale basis to the county's main municipalities, including St. George (water revenue bonds rated 'A+';Stable Outlook), Washington, Ivins, Hurricane, La Verkin, Toquerville, Leeds and Santa Clara, as well as retail services to small communities and unincorporated areas. The county's previously rapid growth has slowed to a more manageable pace in recent years.

About 28% of the district's 32,000 acre feet (af) per year of water sources is surplus and will be used to serve future growth and another 13,900 af will come online in the next few years. The district's typical peak summer demand is 37 million gallons per day (mgd), though usage declined last year due to wet weather, and winter demand is 6-7 mgd compared with capacity of 60 mgd. The district is operating a groundwater recharge program that currently provides access to 100,000 af of stored water and will ultimately provide up to 300,000 af.

SOLID COVERAGE, LIQUIDITY

Financial metrics have been consistently strong, with average all-in DSC, including general fund operations and debt service, at 3.6x over the five years ending fiscal 2014. Fiscal 2014 year-end coverage was 4.0x, or 2.3x less impact fees. Impact fees are variable, ranging from $3.4 million in fiscal 2010 to a high of $10.1 million in fiscal 2013. The district forecasts similar DSC over the next three years based on reasonable assumptions.

The district uses a pooled cash approach, and as such total unrestricted cash stood at $53 million at fiscal year-end 2014. This does not include an additional $8.8 million restricted for rate stabilization and $6.3 million restricted for renewal and replacement. The district's practice is to build cash reserves in the capital projects fund, as it plans to fund future capital projects primarily from impact fees and water development surcharges.

MANAGEABLE CAPITAL PLAN

The district's near-term capital needs are manageable due to its use of impact fees to cover infrastructure costs and its surplus capacity. Although revenues from impact fees declined during the recession, they have since tripled. The five-year capital plan totals $196 million. Spending includes the $4.6 million Quail Creek water treatment plant expansion, $32.5 million Quail Creek ozone addition, $14.5 million Sand Hollow well development and pipeline, and $33.4 million Ash Creek pipeline project expected to generate an additional 6,000 af of water per year. The most costly project in the five-year period is the Sand Hollow Arsenic water treatment plant at $95.6 million in fiscal 2017. Some of the project start dates in the 10-year CIP are flexible, including the $90 million Warner Valley Reservoir, which will have storage capacity of 55,000 af. The bulk of the spending on the project has been pushed out to begin in 2023 from 2017. The district does not expect any additional borrowing in the next five years, but does anticipate some borrowing within 10 years depending on growth.

The district's 30-year capital plan, last updated in 2006 and currently being updated, contains about $853 million in projects that are contingent upon population growth. This includes a portion of the cost of the Lake Powell pipeline, a state project expected to ultimately provide approximately 80,000 af additional supply from the Colorado River. The district's portion of the cost is estimated at over $900 million.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope.

Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012

U.S. Water and Sewer Revenue Bond Rating Criteria (pub. 03 Sep 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869223

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=997073

Solicitation Status

https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=997073

Endorsement Policy

https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31

Contacts

Fitch Ratings
Primary Analyst
Shannon Groff
Director
+1-415-732-5628
Fitch Ratings, Inc.
650 California Street, 4th Floor
San Francisco, CA 94108
or
Secondary Analyst
Andrew Ward
Director
+1-415-732-5617
or
Committee Chairperson
Kathy Masterson
Senior Director
+1-512-215-3730
or
Media Relations:
Elizabeth Fogerty, +1-212-908-0526
elizabeth.fogerty@fitchratings.com