



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

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

--\$2.18 million limited tax general obligation (LTGO) refunding bonds series 2009.

The Rating Outlook is Stable.

SECURITY

The bonds are LTGOs of the district payable from ad valorem taxes to be levied annually on all taxable property in the district. General obligation (GO) debt service repayment is the first lien on ad valorem property tax revenues, before system operations and maintenance.

KEY RATING DRIVERS

HEALTHY RESERVES: The general fund consistently posts sizeable surpluses, allowing for substantial annual transfers to the capital projects and enterprise funds.

STABLE GENERAL FUND REVENUES: The district's property tax rate automatically adjusts to maintain revenue stability, which offsets declining assessed valuations, and is a positive factor as nearly all general fund revenues are derived from this source.

AMPLE SUPPLY AND CAPACITY: Capital needs are manageable, as the district has adequate water sources, surplus system capacity, predominantly new infrastructure, and faces no known regulatory issues.

MODERATE DEBT LEVELS: Overall debt levels are moderate and expected to remain so given the district's planned use of impact fees and reserves to fund future capital projects.

MODERATING SERVICE AREA GROWTH: The service area's rapid population, employment, assessed valuation growth, and local economic diversification has slowed in the current economic climate, giving the district greater flexibility regarding the timing of capital projects.

RATING SENSITIVITIES

CHANGING FINANCIAL PROFILE: The rating is sensitive to shifts in fundamental credit characteristics including the district's strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are highly unlikely.

CREDIT PROFILE

The district (revenue bonds rated 'AA'; Stable Outlook by Fitch) operates primarily as a wholesale supplier of water to various municipalities in Washington County (the county; GO bonds rated 'AA'; Stable Outlook), and provides retail water services

where necessary. The district's boundaries are coterminous with the county's, which is located in the southwest corner of the state bordering Nevada and Arizona. St. George (revenue bonds rated 'A+'; Stable Outlook) is the largest city in the county, representing about half of its population.

The district's LTGO bonds are rated one-notch above the county's GO bonds as the district's property tax receipts are used primarily for debt service and transfers out to capital projects and the enterprise fund. General fund revenues of \$10.5 million support spending of \$2.3 million and transfers out consistently around \$8 million. Of the transfers, \$6 million is for the capital fund and could be scaled back if necessary due to the very long term nature of district projects and approximately \$600,000 is for LTGO debt service payments. As such, the economic volatility experienced by the county has not been a pressure point for the district.

HEALTHY RESERVES

The district posted year-end general fund balances of between \$1.4 million and \$2.9 million, or 12% to 26% of spending, in each of the last five years after transfers. The district makes annual transfers to both the capital fund (which had a fiscal 2013 year-end balance of \$44.8 million) and the water fund for operations and maintenance costs as well as GO debt service payments. These transfers are partly made to comply with the state-imposed limit on general fund balances of 18% of expenditures. In the enterprise fund, the district also has several reserve funds with the following balances as of April 30, 2015: \$13.1 million operations and maintenance reserve, \$6 million repair and replacement fund, \$9.3 million rate stabilization fund, and \$11.5 million capital facilities reserve fund.

STABLE REVENUES

General fund revenues have remained relatively flat the past several years. The district's certified tax rate adjusts annually based on changes in taxable assessed value (TAV). The district's tax levy rate has fallen the last couple of years with the uptick in AV and is modestly below the state legislative cap of 0.001 per dollar of TAV. The district is also authorized to levy an additional tax up to 0.0001 per dollar of TAV if necessary to enable it to pay debt service on any of the district's obligations, although it has never done so. General fund expenditures have remained flat over the last five years as most of the operations are carried out through the well-maintained water fund.

AMPLE SUPPLY AND CAPACITY

The district has ample water supply, is expanding its water reserves through a groundwater recharge program, enjoys surplus system capacity, operates predominantly new infrastructure, and faces no known regulatory issues. Over 25% of the district's water supply is surplus and will be used to serve future growth. The district's peak summer demand is 37 million gallons per day (mgd) and winter demand is 6-7 mgd compared with capacity of 48 mgd increasing to 60 mgd within a month. The district is operating a groundwater recharge program that currently provides 100,000 acre-feet (af) of water and will ultimately provide access to up to 300,000 af.

MODERATING SERVICE AREA GROWTH

After experiencing rapid population growth equal to about 50% over the last decade, the rate has slowed to 2%-3% annually. This has resulted in less pressure for system expansion. The county's unemployment rate dropped to 4.5% as of January 2015 compared to state and national averages of 3.7% and 6.1%, respectively. County median household incomes are 84% of state and 93% of national averages.

MANAGEABLE DEBT PROFILE

Combined direct and overlapping debt levels are moderate at \$2,200 per capita, or 2.8% of assessed value. Debt amortization is above average, with 58% of principal retired within 10 years and all GO debt paid by 2018. Under its 2006 regional water sales agreement with wholesale customers, the district is required to maintain a 30-year capital improvement program.

The district's current five year capital improvement plan calls for \$105.4 million in spending. Approximately \$26.8 million of the total is for construction of the Ash Creek pipeline project, which will generate an additional 2,837 af of water per year. Another \$18 million is for expansion of the Quail Creek Water Treatment Plant from 48 mgd to 80 mgd. In addition, the district is

Spending \$12.5 million on planning for the Lake Powell Pipeline project. The project is expected to begin construction by 2021 and will be built and initially owned by the State. It is expected to yield up to 82,249 acre-feet per year and the county portion of the cost is estimated at \$912 million. Longer-term supply projects include the Warner Valley Reservoir, which is expected to store an additional 45,000 acre feet of secondary water supply. The district expects to fund its projects predominantly through impact fees and water development surcharges and is not planning to issue additional debt in the near term.

The district provides several pension plans administered by the Utah Retirement Systems at a contribution rate of 19.28% of covered salaries in fiscal year 2013, equal to \$299,990. The district does not offer other post-employment benefits.

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

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

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditedesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditedesk/reports/report_frame.cfm?rpt_id=685314

Additional Disclosure

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http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=985280

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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

George Stimola

Analyst

+1-212-908-0770

or

Committee Chairperson

Marcy Block

Senior Director

+1-212-908-0239

or

Media Relations:

Elizabeth Fogerty, +1 212-908-0526

elizabeth.fogerty@fitchratings.com