

RatingsDirect®

Summary:

Johnson County Water District No. 1, Kansas; Water/Sewer

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Summary:

Johnson County Water District No. 1, Kansas; Water/Sewer

Credit Profile

US\$19.115 mil wtr rev rfdg bnnds ser 2019 due 07/01/2030

<i>Long Term Rating</i>	AAA/Stable	New
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Johnson Cnty Wtr Dist #1 wtr

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Johnson County Water District No. 1, Kan.'s series 2019 water revenue refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the district's existing debt.

The rating reflects our opinion of the combination of extremely strong enterprise- and financial-risk profiles.

The enterprise-risk profile reflects our opinion of the system's:

- Broad and diverse local area economy, with access to the Kansas City metropolitan statistical area (MSA), coupled with the benefits of the economies of scale of larger utilities;
- Economically strong and growing customer base;
- Water rates we view as very affordable related to median household effective buying income; and
- Strong overall operational management under our Operational Management Assessment (OMA) methodology.

The financial-risk profile reflects our opinion of the system's:

- Extremely strong debt service coverage (DSC),
- Extremely strong liquidity,
- Strong financial management practices under our Financial Management Assessment (FMA) methodology, and
- Debt we view as moderately low.

Officials intend to use series 2019 bond proceeds to refund series 2010 revenue bonds.

A net system-revenue pledge secures the bonds. We view bond provisions, including planned amendments to prior parity bond covenants, as credit neutral. In our view, the district will likely maintain a rate covenant at 1.25x annual debt service. The additional bonds test calls for net revenue to cover maximum annual debt service (MADS) for all debt, including proposed debt, at least 1.25x. The flow of funds is closed, and we recognize management will only use excess revenue to support the utility fund. In addition, bond provisions call for the least of a debt-service-reserve fund to deposit either cash or an approved surety bond equal to 5% of stated parity bond principal, 1.25x average annual

debt service, or MADS.

The system has a predominantly locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent nearly all system revenue; coupled with operating expense flexibility, this limits federal revenue exposure.

Enterprise risk

Our assessment of the enterprise-risk profile as extremely strong reflects our view of the district's:

- Participation in the broad and diverse Kansas City MSA,
- Steadily growing customer base with strong median household effective buying income, and
- Consistently strong rate-setting practices with a strong operational management framework.

The 272-square-mile district serves more than 147,000 customers in Johnson, Wyandotte, and Miami counties. Most customers live in Johnson County, including Overland Park, Lenexa, and part of Olathe. Johnson County is the state's largest, most-affluent county. In our opinion, it still the state's most economically vibrant county. The county is home to Sprint Communications' world headquarters and consulting-engineering-firm Black & Veatch Corp., as well as corporate headquarters for pharmaceutical, biotechnology, and financial-service companies. Therefore, county unemployment at 3.3% remains below the state's and nation's levels. In our opinion, median household effective buying income is strong at more than 144% of state and national levels. There is no significant customer concentration.

For residential customers, based on the district's actual average billing, the monthly water bill is \$44.97. The 7,500-gallon bill is about 0.7% of median household effective buying income, which we consider low. We also consider the county poverty rate low at about 7%. The district maintains a periodically updated rate study and a water-rate-cost-of-service model. The district can set its own rates.

Based on our OMA, we view the water enterprise as a '1' on a six-point scale, with '1' being the strongest and '6' the weakest. This indicates, in our view, that operational and organizational policies are comprehensive. The strong OMA includes strong asset-management programs for monitoring existing infrastructure and the ability to make rate adjustments, as well as available comprehensive drought-and-disaster-management plans, if needed. The district obtains raw water from the Kansas and Missouri rivers. These sources provide the system with redundant operations and limit the risk of it relying on one water source. Treatment capacity from the district's two plants and storage remain sufficient to serve average and peak-day demand. The district complies with state and federal regulations.

Consistent with the article titled "Methodology: Industry Risk," published Nov. 19, 2013, on RatingsDirect, we consider system industry risk very low, the most favorable assessment possible on a six-point scale, with '1' being the best and '6' the worst.

Financial risk

Our assessment of the financial-risk profile as extremely strong reflects our view of, what we consider, the district's exceptionally strong all-in DSC and liquidity, moderately low debt, and strong financial management framework under our FMA methodology.

In our opinion, DSC has remained strong at more than 2x since fiscal 2016. In audited fiscal 2018, the district reported 2.9x all-in DSC, excluding system-development charges, which we consider extremely strong. The district historically demonstrates extremely strong all-in DSC. The availability of detailed-and-comprehensive sufficiency-and-rate studies has allowed management to meet and exceed DSC expectations.

Liquidity is another identified system strength. Unrestricted cash and investments improved to \$146 million in fiscal 2018 from \$107 million in fiscal 2016. Unrestricted cash and investments at fiscal year-end 2018 were equivalent to 941 days' cash on hand. Related to the district's \$350 million, fiscal years 2019-2025 capital improvement plan (CIP), though it could fluctuate slightly, management deploys cash to fund projects. However, based on management forecasts, we expect unrestricted liquidity will likely remain exceptionally strong.

We currently consider the system's debt-to-capitalization ratio a moderately low 21% with slightly more than \$245 million of debt outstanding after the series 2019 issuance. The district maintains a comprehensive multiyear capital improvement plan. Officials do not currently expect to issue additional debt within the two-year outlook period.

Based on our FMA, we view the district as a '1' on a six-point scale, with '1' being the strongest and '6' the weakest. A strong FMA indicates financial practices are strong, well embedded, and likely sustainable.

The district maintains a five-year rolling annual CIP and personnel budget, and it analyzes any deviations from projections. We also consider management's adherence to a comprehensive CIP; generally accepted-accounting-principles audits; and detailed, codified investment policy credit positives. Furthermore, the district board's financial policies help support financial integrity, including:

- Maintaining 2x DSC;
- Establishing adequate reserves, including an \$11 million rate-stabilization fund;
- Internal annual rate studies; and
- Formal cost-of-service study by outside consultants every five years.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the district's conservative fiscal policies, regular rate adjustments, and long-term planning that have resulted in a stable, exceptionally strong financial profile. In our view, access to, and participation in, a strong and stable economy further supports the outlook.

Downside scenario

Due to economic and financial strengths, a lower rating, in our view, is not likely. However, we could lower the rating if the service-area economy or finances were to experience significant, prolonged deterioration, pressuring the enterprise- or financial-risk profiles.

Ratings Detail (As Of October 25, 2019)

Johnson Cnty Wtr Dist #1 wtr
Long Term Rating

AAA/Stable

Affirmed

Ratings Detail (As Of October 25, 2019) (cont.)

Johnson Cnty Wtr Dist #1 wtr

Long Term Rating

AAA/Stable

Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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