FITCH AFFIRMS CENTENNIAL WATER AND SANITATION DIST, CO WATER & SEWER REVS AT 'AA+'; OUTLOOK STABLE

Fitch Ratings-Austin-24 February 2014: Fitch Ratings affirms the rating on the following Centennial Water and Sanitation District, Colorado (the district) revenue bonds:

--$13.4 million water and sewer revenue bonds at 'AA+'.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by net revenues of the water and sewer system (the system).

KEY RATING DRIVERS

SOLID FINANCIAL METRICS: The district exhibits a strong financial profile, characterized by good debt service coverage (DSC), five consecutive years of very robust liquidity at more than three years of cash on hand, and excess cash flows in fiscal 2012 to ensure ongoing renewal of assets. DSC and liquidity margins are expected to decline in fiscal 2013 due to wet weather but are expected to remain adequate for the rating category.

MANAGEABLE DEBT BURDEN: Debt levels are moderately low and are projected to remain so even with an additional borrowing during the next five years. Debt amortization is also very rapid with principal payout at 96% and 100% in 10 and 20 years, respectively.

AMPLE RATE FLEXIBILITY: Above-average area wealth levels provide the district with generous rate raising flexibility. Average monthly utility charges at 0.6% of median household income (MHI) are well below Fitch's affordability threshold of 2%.

ADEQUATE WATER SUPPLY: The district owns, leases and controls water rights that total approximately 30,670 acre-feet (af) per year, which management believes will be sufficient to meet projected build out demand.

STABLE SERVICE AREA: The service area is stable and relatively diverse, with a favorable economic profile characterized by high wealth levels and low unemployment.

RATING SENSITIVITIES

CONTINUED POSITIVE RESULTS

The rating is sensitive to notable shifts in the district's fundamental credit characteristics, including its sound liquidity and DSC. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

SOUND FINANCIAL METRICS

System financial performance has been solid, with total DSC consistently at or above 1.7x in each of the last five years and at a very strong 2.2x in fiscal 2012. Coverage is expected to decline to around 1.4x in fiscal 2013 due to wet weather and resulting reduced consumption. The district is planning to raise rates annually from fiscal 2014 to 2018, which will help maintain DSC margins within 'AA' category median levels.

The district also has good reserve policies in place. A portion of the district's cash balances is set aside annually to pay the following year's debt service requirement. The district's unrestricted and available restricted cash at fiscal 2012 year-end totaled $84 million; equal to an exceptional 1,497 days of operations. Cash reserves have covered more than three years of operating expenses each of the last five years. Even with 40% pay-go funding of capital projects planned over the next five years, liquidity ratios are anticipated to remain strong.

MANAGEABLE CAPITAL NEEDS AND MODERATELY LOW DEBT RATIOS

The service area is approaching build out, so future capital needs will focus primarily on system rehabilitation and repair. Management maintains a comprehensive facility plan that is reviewed annually. Approximately $4 million out of the original $240 million in projects from the 2010 plan update remain, of which $169,000 is anticipated to be funded over the next five years. Another $5.7 million has also been identified to be spent over the next five years to proactively address future regulatory requirements and/or system upgrades, and $2 million will be spent on the Water, Infrastructure, and Supply Efficiency (WISE) partnership project with Denver Water and the city of Aurora. In total, the district plans to spend a manageable $7.9 million on these projects from available cash reserves and capacity fees.

The district is also moving forward with its $45 million Chatfield Reallocation Project (not included in the comprehensive facility plan). The project will provide the district with an additional and fairly inexpensive 1,500 af source of water supply. The project will be predominantly funded with a low-interest loan from the Colorado Water Conservation Board (CWCB); the remainder (approximately $9.5 million) will be funded from existing cash reserves.

Debt levels currently are moderately low with debt to plant at 36% and outstanding debt per customer at $839. Even with the additional CWCB loan, debt ratios are forecast to remain favorable. Debt amortization is very rapid, with principal payout at 96% and 100% in 10 and 20 years, respectively.

VERY AFFORDABLE RATES WITH FUTURE FLEXIBILITY

The district adjusted its water rate structure in 2003 to encourage conservation in response to drought conditions. Charges now consist of an availability charge and a usage fee. The district prudently implemented the fixed water service availability fee to prevent any revenue declines related to reduced usage; the amount is tied to the district's annual debt service requirements and fixed costs related to billing.

The fee amount, which had been $12.50 per month since its enactment in 2003, is being increased to $13.50 per month in 2014; management reports that no additional increases to the water availability fee are planned for the next five years. The availability fees accounted for approximately 43% of the total water bill in fiscal 2013 (assuming usage of 6,000 gallons per month). Water usage fees have been increased in recent years and are projected to increase annually by an average of 3% over the next five years.

Wastewater charges consist of a base charge (which accounted for approximately 45% of the total wastewater bill in fiscal 2013) and a usage fee; a 3.8% increase to the wastewater bill is budgeted for fiscal 2014. At $43.45 (assuming usage of 6,000 gallons per month), the average combined monthly utility bill is very affordable at just 0.6% of MHI, well below Fitch's affordability threshold of 2% of MHI.

SOUND ECONOMIC FUNDAMENTALS

The district was formed in 1980 in the northern portion of Douglas County, 12 miles south of Denver. The district currently provides water to the Highlands Ranch Metropolitan District (HRMD) and the Northern Douglas County Water and Sanitation District. HRMD makes up about 95% of the district and is a planned community that currently includes about 38,700 of the district's total 40,600 customers. The service area is affluent, with county wealth levels almost twice those of the state and nation.

ADEQUATE WATER SUPPLY

The district obtains its water from various sources, including groundwater reservoirs and aquifers (17,000 af) and surface water (13,760 af). All groundwater beneath Highlands Ranch is adjudicated for use by district customers. The district's current water supply is projected to be sufficient to meet projected build out demand, though management continues to look for alternative low cost sources of water.

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

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (June 3, 2013);
--'U.S. Water and Sewer Revenue Bond Rating Criteria' (July 31, 2013);
--'2014 Water and Sewer Medians' (Dec. 12, 2012);
--'2014 Outlook: Water and Sewer Sector' (Dec. 12, 2013).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=709499
U.S. Water and Sewer Revenue Bond Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715275
2014 Water and Sewer Medians
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724358
2014 Outlook: Water and Sewer Sector
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724357