

# MOODY'S

## INVESTORS SERVICE

### Rating Update: Moody's affirms A1 rating on the Town of Erie (CO)'s Water Enterprise Revenue Bonds; removes negative outlook

---

Global Credit Research - 20 Nov 2014

#### **\$29.7 million of rated debt affected**

ERIE (TOWN OF) CO  
Water Enterprise  
CO

#### **Opinion**

NEW YORK, November 20, 2014 --Moody's Investors Service has affirmed the A1 rating on the Town of Erie, Colorado's Water Enterprise Revenue bonds, and removed the negative outlook. The bonds are payable solely from net revenues of the water enterprise, defined as gross revenues remaining after payment of operation and maintenance expenses. The A1 rating applies to \$29.7 million in outstanding Moody's-rated debt.

#### **SUMMARY RATING RATIONALE**

Affirmation of the A1 rating reflects the water enterprise's growing moderately-sized, affluent customer base, solid debt service coverage, and limited water supply. The removal of the negative outlook reflects management's proactive approach to future water supply needs.

#### **STRENGTHS**

- Affluent and increasing customer base
- Rate increases coinciding with capital projects

#### **CHALLENGES**

- Rapid growth pressures limited water supply
- Elevated debt ratio; expected to increase

#### **DETAILED CREDIT DISCUSSION**

##### **FAVORABLY LOCATED AND AFFLUENT RESIDENTIAL SERVICE AREA; EXPANDED WATER SUPPLY NEEDED**

The Town of Erie Water Enterprise serves 7,095 customers, primarily single family residences in the Town of Erie (GO Rating Aa2). The Enterprise's primary source of water is derived from 7,380 shares in the Colorado Big Thompson project and 14 units in the Windy Gap Project, operated by the Northern Colorado Water Conservancy District. The Enterprise additionally owns small numbers of shares from a variety of other water suppliers. Management reports these combined water rights supply a max capacity of 7,585.1 acre-feet per year, in a dry year, with an average potable usage of approximately 3,057 acre-feet per year; management anticipates currently available water resources will provide an adequate water supply through approximately 2025. Contingency plans after 2025 are for the Town to purchase 6,500 acre-feet from the Northern Integrated Supply Project that would supply additional capacity for the Town through only 2025. The Enterprise's treatment plant was constructed in 1999 and a 4.5 million gallon per day (MGD) expansion was completed in 2005. Average total treatment capacity is now 9.9 MGD with peak capacity of 12.5 MGD, well in excess of the peak use of 6.0 MGD during the summer months. Current treatment capacity is sufficient only through 2019. Given that the current water supply approaches peak water usage, Moody's anticipates potentially significant additional capital outlay to purchase additional water rights, and for construction projects associated with Windy Gap and the Northern Infrastructure Supply Project, and will continue to monitor the system's ability to increase capacity and supply.

Located 25 miles north of Denver, the Town of Erie's favorable location to the major employment centers, easy

freeway access, and availability of land for new home construction has attracted affluent residents to the area. The Town's population has grown by 241% from 2000 to its current population of 21,500. The ten largest customers represent 11.77% of total revenues with the two largest customers consisting of the school district and the Town, representing a combined 4.76% of billed revenues. Socioeconomic indicators are strong with per capita and median family incomes at 152.1% of the state and 169.2% of US, respectively.

Continued growth in the city has attributed to an increase in tap fee revenues. New water taps sold has continued to grow from 119 in FY 2010 to 244 in FY 2013, with management reporting 193 taps sold as of July FY 2014. Tap fees and revenues have increased over the past five years with FY2013 reporting \$6M in connections fees, an increase of 86% over FY 2012, due to an increase in tap fee sales. Moody's expects tap fee revenues to continue to increase but will continue to monitor the system's ability to utilize planned usage rate increases to offset the volatile income of tap fees.

#### STEADY RATE INCREASES IMPROVE DEBT SERVICE COVERAGE

Moody's believes the system's satisfactory fiscal management and currently solid coverage of senior lien bonds will continue to support the Enterprise's revenue bond rating. Since fiscal 2009, coverage of annual senior lien bonds has increased, primarily reflecting increasing tap fee revenues and increased usage rates, with coverage of debt service increasing from 1.58 times in fiscal 2009 to 3.38 times in fiscal 2013. Fiscal 2013 coverage of annual debt service improved to 3.38 times, but, net of connection fees, was a more narrow 1.26 times. During this timeframe, the Enterprise's net working capital declined slightly, but remained adequate at \$10.8 million in fiscal 2013, with budgeted draws in fiscal 2014 to \$5.1 million.

The Enterprise is expected to maintain adequate coverage of debt service, supported by annual rate increases of 5% per year from 2015-2017, 4% in 2018, and 3% in 2019. Furthermore, management reports increasing water resource and water tap fees through that same time period. For fiscal 2014 debt service coverage is also expected to remain flat at 3.38 times and, net of connection fees, is estimated to be 1.01 times. Fiscal 2015 budgeted projections include a \$1.6 million surplus improving coverage to 4.7 times. Although secured by the Town's available revenues, including the general fund, the Water Enterprise also supports approximately \$25 million in outstanding Certificates of Participation (COP) obligations: fiscal 2013 coverage of combined revenue bonds and annual COP base rental payments is 2.27 times. The Enterprise's ability to manage and maintain structural balance of operations and prudent debt service coverage ratios will influence how the Enterprise will perform in the future relative to other A1-rated Water Enterprises.

#### HIGHER THAN AVERAGE DEBT RATIO WITH POTENTIAL FUTURE BORROWING NEEDS

The Enterprise's debt ratio is higher than average, but not inconsistent for the A1-rating category, at 36.3% in fiscal 2013. The debt ratio includes the \$24.1 million in senior lien debt outstanding as well as approximately \$25 million in COPs issued by the Town of Erie Finance Corporation. The COPs are secured by a lease purchase agreement that is subject to annual renewal and appropriation with base rental payments made from any legally available resource of the Town. 1,280 water right shares from the Colorado Big Thompson Project serve as the leased asset. The Town has and expects to continue to make base rental payments from the water fund. Moody's notes that significant capital outlay may be required in the future for additional water supplies and an expansion to the treatment facility.

#### LEGAL PROVISIONS PROVIDE STANDARD BOND HOLDER SECURITY

Other than the additional bonds test, legal provisions under the bond ordinance are standard and include a standard cash funded debt service reserve requirement and a rate covenant equal to 125% of average annual debt service.

#### WHAT COULD MAKE THE RATING GO UP

- Increasing debt service coverage levels, net of growth-related revenues
- Trend of increasing size of the service system

#### WHAT COULD MAKE THE RATING GO DOWN:

- Material declines in debt service coverage
- Inability to effectively manage water needs

## KEY STATISTICS

Total Water Accounts: 7,095

Asset Condition, 2013: 56 years

System size, 2013: \$3,191

Median family income: 169% of U.S.

Total Annual Debt Service Coverage, FY 2013: 3.38x

Maximum Annual Debt Service Coverage (excluding connection fees), FY 2013: 1.26x

Operating Ratio, FY 2013: 49.9%

Debt Ratio, FY 2013: 36.3%

Median Family Income, 2009: \$106,540 (169% of the US)

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

### **Analysts**

Ryan Hazlett  
Lead Analyst  
Public Finance Group  
Moody's Investors Service

Dan Steed  
Additional Contact  
Public Finance Group  
Moody's Investors Service

### **Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
USA



© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or

Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.