MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Triview Metropolitan District, CO

New issuer

Summary

Triview Metropolitan District's water and wastewater utility (A1 issuer rating; A3 revenue bond rating) is mid way through development and is constrained by its small size, though benefits from a strong financial position relative to the size of operations, above-average resident income levels, a moderately low debt to revenues ratio, and healthy debt service coverage post-sale from non-tap fee operating revenues. However, given the district is still developing out, tap fees associated with new development to connect to the system make up a large portion of total revenues, and can be volatile depending on the pace of new development. The credit profile also considers the moderately weak legal provisions protecting bondholders.

On November 5, 2018 we assigned an issuer rating (hypothetical general obligation unlimited tax security) of A1 and a revenue bond rating of A3 to the district.

Credit strengths

» Relatively new utility system with minimal capital improvement needs

» Above average resident income levels

» Healthy debt service coverage net of tap fees associated with new development

» Strong cash position relative to operations

Credit challenges

» Small system in developing district

» Volatile tap fees make up a large portion of operating revenues

» Moderately weak legal provisions protecting bondholders

Rating outlook

Moody's generally does not assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

» Significant system expansion

» Increase in nominal amount of reserves

» Increase in debt service coverage

Factors that could lead to a downgrade

- Trend of declining debt service coverage
- Reduced unrestricted cash position
- Increased leverage of the system absent revenue growth

Key indicators

Exhibit 1

Triview Metropolitan District, CO					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	39 years				
System Size - O&M (in $000s)	$1,621				
Service Area Wealth: MFI % of US median	147.8%				
Legal Provisions					
Rate Covenant (x)	1.10				
Debt Service Reserve Requirement	No DSRF (Baa and Below)				
Management					
Rate Management	A				
Regulatory Compliance and Capital Planning	A				
Financial Strength					
	2013	2014	2015	2016	2017
Operating Revenue ($000) [Including tap fees]	$2,733	$5,454	$2,771	$3,533	$5,646
System Size - O&M ($000)	$1,218	$1,370	$1,267	$1,591	$1,621
Net Revenues ($000)	$1,515	$4,083	$1,504	$1,942	$4,025
Net Funded Debt ($000)	$4,387	$7,284	$6,434	$12,084	$11,054
Annual Debt Service ($000)	$502	$500	$1,134	$1,112	$1,444
Annual Debt Service Coverage (x)	3.0x	8.2x	1.3x	1.7x	2.8x
Cash on Hand	184 days	369 days	257 days	295 days	813 days
Debt to Operating Revenues (x) [Including tap fees]	1.6x	1.3x	2.3x	3.4x	2.0x

Source: Moody's Investors Service, district audited financial reports, Series 2018 bond documents

Profile

Triview Metropolitan District was formed in 1985 for the purpose of providing street and drainage, water and wastewater improvements, park and recreation, traffic and safety protection, and mosquito control; utility service commenced in the early 1990's and is provided to all areas within district boundaries. The 2,590 acre district is located within the town of Monument, approximately 6 miles from the Air Force Academy, 15 miles north of Colorado Springs (Aa2) and 52 miles south of Denver (Aaa stable). The district includes a mix of residential and commercial property, as well as vacant land to be developed.

Detailed credit considerations

Service area and customer base: growing district favorably located in northern Colorado Springs metro area

Triview Metropolitan District will continue to see growth in its customer base as development continues. The district currently serves 1,564 residential units as well as 60 commercial customers within the district, and is planned to include a total of 3,032 residential units as well as additional commercial development as the district is only half built. As of fiscal 2018, the district tax base was moderate at $769.2 million, and has grown over 34% since 2014. The district is well positioned for growth given its favorable location in northern Colorado Springs metro area, a region which is continuing to see job growth, particularly in high wage industries.

The district operates its own water treatment facilities, lines and distribution facilities, and jointly owns the wastewater treatment facilities. The two water treatment plants have a combined capacity of 2.3 million gallons per day (MGD). Based on the infrastructure in place in the system, the maximum capacity for providing treated water is 1.8 MGD versus average use of 400 thousand MGD. The district owns a 44% share in the Upper Monument Creek Wastewater Treatment Plant which provides regional wastewater treatment to the district and other partners (Forest Lakes Water and Sanitation District and the Donala Water and Sanitation District). Donala WSD operates the wastewater treatment plant, with the district responsible for its share of O&M costs based on the share of actual flows. The wastewater system also includes collection lines and other infrastructure. The capacity of the wastewater treatment plant is currently 1.75 MGD. Backbone utility infrastructure is complete for full development of the district. Any infrastructure needed to connect to the system will be paid for by developers.

The district's water supply currently is comprised primarily of rights in nonrenewable Denver Basin groundwater aquifers. The district has been working to increase its renewable source of water by purchasing shares from the Fountain Mutual Irrigation Company (FMIC). The district currently owns or controls 515 shares in FMIC and is under contract to purchase an additional 32 shares. The district's 515 shares yield approximately 360 acre feet of water per year; the district expects demand at build-out of 2,200 acre feet per year. The district has set a goal to derive no more than 15% of water demand from the Denver groundwater sources, and intends to continue to purchase rights to renewable water sources.

Debt service coverage and liquidity: healthy coverage and strong reserves relative to operations

Debt service coverage as of fiscal 2017 based on total net revenues was strong at 2.8 times annual debt service. However, 30% of the system's revenues were derived from tap fees associated with new development to connect to the system. Net of tap fees coverage fell to an adequate 1.5 times. With the refunding and restructure of debt, which will lengthen the amortization term, debt service will decrease substantially, from $1.4 million in fiscal 2017, to just under $700,000 going forward. As a result, coverage of Series 2018 maximum annual debt service (MADS) based on fiscal 2017 revenues is strong at 3.1 times. However, based on budgeted revenues and expenses in fiscal 2018, MADS coverage will be approximately 1.8 times net of tap fees.

Given ongoing development, tap fees are expected to remain an important source of revenues, though the board is also following a ten year plan to annually increase rates per a rate study completed in July 2018. Tap fee revenues are volatile depending on the pace of development and specific projects ramping up and completing. While tap fees are not needed to coverage debt service, they are an important source of revenue to build up reserves to cover future capital expenses and renewable water rights purchases. Additionally, the board increased water rates by 5% in fiscal 2018 and wastewater rates by 10%. Through 2016, the board intends to increase water rates by 8% annually for five years, and by 5% for three years; it also intends to increase wastewater rates by 9% annually through 2027. Utility rates charges to customers are currently in line with surrounding peers.

LIQUIDITY

The district's unrestricted cash is nominally small at $3.6 million, though given the district's small size of operations, this represented a very strong 813 days of expenses. The unrestricted cash position is expected to grow over the near term through operating surpluses and tap fees.

Debt and legal covenants: manageable debt burden; adequate albeit weaker legal covenants

The district's debt represents a moderately low 2.7 times operating revenues, and no additional debt is expected to be issued for at least three years, during which time operations will grow commensurate with new development. Over the next ten years, capital improvement costs, including purchase of new water rights, are expected to total $26.1 million for the water system; capital improvements for the wastewater system through 2028 are projected to total $27.6 million.

DEBT STRUCTURE

All of the district's revenue bond debt is fixed rate and amortizes through 2048. Principal amortization is below average with 66% of principal retired within ten years.

DEBT-RELATED DERIVATIVES

The district is not a party to any derivative agreements.

LEGAL COVENANTS

Legal covenants protecting bond holders are relatively weak, though are mitigated by strong days cash on hand and limited capital plans. The district has covenanted to set rates to generate 1.1 times debt service, net of tap fees. Similarly, the additional bonds test requires 1.1 times coverage of maximum annual debt service including new debt, net of tap fees, from 12 months of revenues spanning the previous 18 months. There is no requirement to maintain a debt service reserve fund.

Management and governance: active management overseeing utility system

The district is served by a five member board serving successive biennial terms. The board retains the sole authority to set rates for the system. The district employs 14 people to manage the utility system, including a district manager and other staff.

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