

## ISSUER COMMENT

17 September 2019

### RATING

#### Revenue <sup>1</sup>

Aa3 No Outlook

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## North City Water District, WA

### Annual Comment on North City Water District

#### Issuer Profile

North City Water District provides water service to King County, Washington. King County has a population of 2,118,119 and a moderate population density of 996 people per square mile. The county's median family income is \$105,512 (1st quartile) and the July 2019 unemployment rate was 3.1% (1st quartile) <sup>2</sup>. The District derives all of its water from Seattle's Tolt watershed, treats the water at its own treatment plant, and then distributes it via a series of water transmission mains. The County's sewer utility provides sewage treatment.

#### Credit Overview

The credit position for North City Water District is very healthy. Its Aa3 rating is level with the median rating of Aa3 for US water systems. Key credit factors include an affluent income service area, ample liquidity, strong debt service coverage, a moderate debt profile, and a small system size.

**System Characteristics:** The system profile of the water utility is solid overall relative to the assigned rating of Aa3. The median family income equals a healthy 129.2% of the US level. However, the system size, measured as operating and maintenance expenses (\$4.5 million), is smaller than the US median. The system maintains an asset life that is comparable to the US median. This metric was stable from 2014-2018 and will likely remain stable given continued efforts to reinvest in the utility.

**Financial Strength:** The financial position of North City Water District is very strong with respect to its Aa3 rating. Both the days cash on hand (1,053 days) and the coverage of the annual debt service by net revenues (2.9x) greatly exceed the US median. However, the district plans to make significant capital improvements in the coming years which will result in a still strong but reduced liquidity position. Moreover, the days cash on hand has grown significantly from 2013 to 2017. Also, the debt to operating revenues (2.5x) is comparable to other Moody's-rated water systems nationwide.

**Legal Provisions:** Legal provisions, which typically include a rate covenant requiring a minimum of 1.25x coverage of debt service, are robust for this sector.

#### Sector Trends - Washington Water

Water and sewer utility systems in Washington tend to have remaining useful life spans in-line with the average US system, with financial metrics that are equal to or better than most. Median debt service coverage (1.9 times) is comparable to the national median. Washington utilities' liquidity levels are stronger (439 days cash on hand) than the US median of 420 days. Utilities have average leverage, with median debt to operating revenues (2.2 times)

comparable to the national median. Water in Washington is abundant, and few water utilities face supply constraints. Washington water and sewer utilities have unlimited rate-setting autonomy, which supports stability in finances.

## EXHIBIT 1

**Key Indicators 3.4 North City Water District**

Credit Metrics	2013	2014	2015	2016	2017	US Median	Credit Trend
Annual Debt Service Coverage (x)	2.40x	2.30x	3.08x	3.89x	2.93x	2.10x	Improved
Days Cash on Hand (Days)	60	307	279	1,021	1,053	418	Improved
Debt to Operating Revenues (x)	1.3x	1.5x	1.3x	2.6x	2.4x	1.8x	Weakened
Median Family Income (% of US Median)	125%	125%	129%	129%	129%	100%	Stable
Remaining Useful Life of Capital Assets (Years)	31	35	27	28	29	31	Stable

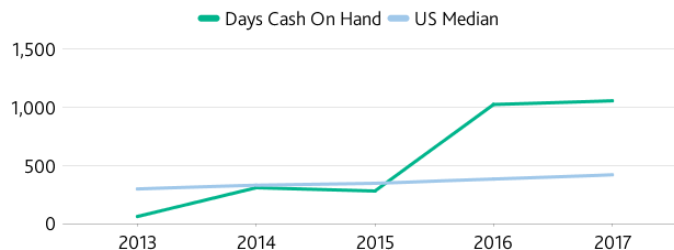
Debt and Financial Data (\$000s)	2013	2014	2015	2016	2017	US Median
Net Funded Debt	\$8,571	\$9,490	\$8,886	\$18,018	\$17,817	\$30,291
Total Revenues	\$6,464	\$6,500	\$6,971	\$6,943	\$7,637	\$16,274
Operating and Maintenance Expenses	\$4,426	\$4,622	\$4,509	\$4,369	\$4,460	\$8,544
Net Revenues	\$2,038	\$1,878	\$2,462	\$2,574	\$3,178	\$7,109
Debt Service	\$850	\$816	\$798	\$662	\$1,084	\$3,002

Governance/Legal Provisions	Score
Rate Management	Aa
Regulatory Compliance and Capital Planning	Aa
Rate Covenant	Aa
Debt Service Reserve Requirement	Aa

Source: Moody's Investors Service

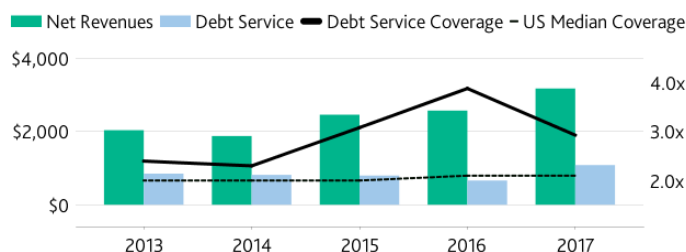
## EXHIBIT 2

**Days cash on hand has increased from 2013 to 2017**

Source: Moody's Investors Service

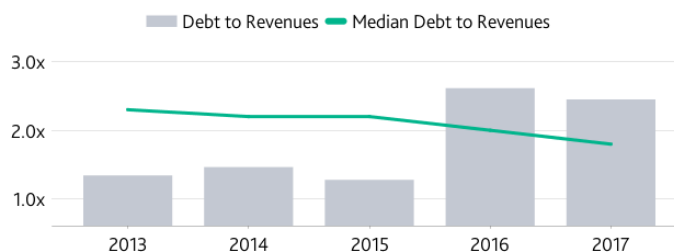
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EXHIBIT 3

**Debt service coverage increased from 2013 to 2017**

Source: Moody's Investors Service

EXHIBIT 4

**Debt to operating revenues increased from 2013 to 2017**

Source: Moody's Investors Service

**Endnotes**

- 1 The rating referenced in this report is the rating of the senior most lien on the relevant pledged revenues. Some utilities have bonds separately secured by distinct revenue sources. For these utilities, the rating referenced in this report is the senior most rating only on the relevant revenue pledge (e.g., water); the utility could have a higher rating on a different type of revenue bond (e.g., sewer).
  - 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 3 Moody's calculations of various statistics can be different than calculations reported in audited financial statements or offering documents. Moody's makes standard adjustments to reported financial data, to facilitate comparisons across issuers. For definitions of the metrics in the Key Indicators Table, see our [US Municipal Utility Revenue Debt](#) methodology.
  - 4 The medians come from our most recently published report, [Medians - Solid financial metrics, ability to raise rates underpin stable sector](#).

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