December 1, 2011

Summary:
Eagle River Water & Sanitation District Water Subdistrict, Colorado; General Obligation

Primary Credit Analyst:
Misty Newland, San Francisco (1) 415-371-5073; misty_newland@standardandpoors.com

Secondary Contact:
Joseph J Pezzimenti, New York (1) 212-438-2038; joseph_pezzimenti@standardandpoors.com

Table Of Contents

Summary:

Eagle River Water & Sanitation District Water Subdistrict, Colorado; General Obligation

Credit Profile		
US$2.935 mil GO wtr rfdg bnds ser 2011 due 12/01/2022		
Long Term Rating	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to Eagle River Water and Sanitation District Water Subdistrict, Colo.'s series 2011 general obligation (GO) water refunding bonds. Standard & Poor's also affirmed its 'A+' underlying rating (SPUR) on the subdistrict's GO water bonds outstanding. The outlook is stable.

The ratings reflect our assessment of the subdistrict's:

- Favorable service area economy, which includes Vail, Colo., a destination tourism location with year-round appeal, although its population swells in the winter due to its attractiveness as a premier ski resort;
- Strong income levels; and
- Historically conservative budget assumptions and overall good water system financial performance.

The bonds are general obligations of the subdistrict secured by an ad valorem taxes levied against property within the subdistrict. The subdistrict was created by the Eagle River Water and Sanitation District in 2002. The boundaries of the subdistrict are generally coterminous with the boundaries of the district's water system, which is composed primarily of the town of Vail.

Vail's full-time-equivalent population is about 5,305, as estimated by the subdistrict. The population swells to about 22,000 in peak winter months. Vail's income indicators exceed state and national levels, as indicated by a median household effective buying income of 109% of the state and 115% of the national averages. The town's high per capita retail sales, at 436% of the nation, reflect tourism-related imported wealth and its role as a regional retail center.

The effects of the economic downturn on local property values had not materialized in assessed value losses until recently. Assessed value for the subdistrict grew 69% between collection years 2007 and 2011. For 2012, management reported a year-over-year decline of 16.7% in the preliminary valuation of $935.9 million, which we have observed is consistent with countywide property value trends. Based on state assessment rates, the estimated market value would be about $9.7 billion, equal to $1.8 million per capita, which we consider extremely strong. Management also reported that property tax collection rates for the subdistrict have been between 95% and 99% (not including collections of interest, fees, and penalties for delinquencies) during collection years 2006 through 2011.

The subdistrict-owned and -operated water system provides potable water services to about 10,073 single-family equivalent connections (SFE), or 3,022 customers, within the boundaries of Vail. Current water supply comes from groundwater wells along Gore Creek; treatment is provided through wellhead chlorination and at the Gore Valley

Drinking Water Treatment Plant. The subdistrict also operates 12 water storage tanks with a total capacity of about 8.5 million gallons. We understand that current capital plans include the potential issuance of $4.8 million water revenue bonds in 2013 to fund regulatory projects related to groundwater disinfection, and other system improvements. Management reported that water supply is adequate for the current population. We understand that the subdistrict may issue an additional $4.3 million of water revenue bonds in 2015 to fund water supply expansion if new development rebounds.

The district's current water system financial forecast through the fiscal year ending Dec. 31, 2016 includes 3% annual expenditure growth. However, management informed us that actual expenditure growth has been lower due to controlled spending. Also included is very modest customer growth of 10 to 17 SFEs annually and flat water volume sales. The monthly user rate includes a base rate of $18.76 per SFE, of which $5.15 was added to fund the district's series 2009 water revenue bonds. Tier 1 users are currently charged $16.48 for 8,000 gallons of water per month. The monthly base rate is forecast to increase 13% for fiscal 2012, and an additional 42% between fiscal 2013 and fiscal 2014 to support potential revenue debt in 2013 and 2015. Volume rates are forecast to increase 3% for fiscal 2012, 5% for fiscal 2013 and fiscal 2014, and 10% for fiscal 2015 and fiscal 2016. We understand that the rate increases for fiscal 2012 were approved by the board and rates are reviewed annually.

The subdistrict maintains a $600,000 rate stabilization fund, as required in the series 2009 bond covenants, which is maintained through the multiyear forecast. The district also has an unrestricted water system reserve target of 25% of operating expenditures. For fiscal 2011, its unrestricted fund balance is projected to be $4.7 million, or about 113% of net operating expenditures. Although this reserve is projected to decrease below the target to 23% for fiscal 2015 and fiscal 2016 (about $1.1 million) the reserve levels are forecast to remain adequate, in our opinion, for the rating. Management attributes the decline in reserves is related to an increase in projected annual debt service for 2013 and 2015 revenue bonds, and capital spending.

We understand that the GO refunding bond proceeds will be used to current refund an outstanding loan with the Colorado Water Resources and Power Development Authority (CWRPDA) for interest rate savings. After the refunding, the district estimates about $10.5 million of subdistrict GO bonds will be outstanding. We understand that the subdistrict currently has no unissued debt authorization. As such, additional GO debt would require voter approval, for which the subdistrict currently has no plans.

As of Dec. 31, 2010, the district's debt obligations secured by system operating revenue included about $13.2 million of water enterprise revenue bonds (A+/Stable), $17.3 million of wastewater revenue bonds (A+/Stable), and $10.5 million of CWRPDA wastewater system loans outstanding.

Outlook

The stable outlook reflects our view of management's comprehensive financial forecasting, including planned rate increases and the maintenance of targeted reserves while funding ongoing capital needs. We do not expect to change the ratings during the current two-year outlook period based on our opinion of management's current financial forecast and our anticipation that the subdivision's tax base will remain strong despite expected declines in value.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of December 1, 2011)		
Eagle River Wtr & Sant Dist Wtr Subdist GO		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.