

# RatingsDirect®

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**Summary:**

## Oconee County, Georgia; Water/Sewer

**Primary Credit Analyst:**

Erin Boeke Burke, New York 212-438-1515; Erin.Boeke-Burke@spglobal.com

**Secondary Contact:**

Edward R McGlade, New York (1) 212-438-2061; edward.mcglade@spglobal.com

### Table Of Contents

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Rationale

Outlook

## Summary:

# Oconee County, Georgia; Water/Sewer

### Credit Profile

US\$12.765 mil wtr and swr rev bnds ser 2017A dtd 10/03/2017 due 09/01/2037

*Long Term Rating* AA/Stable New

US\$1.85 mil wtr and swr taxable rfdg rev bnds ser 2017B dtd 10/03/2017 due 06/30/2020

*Long Term Rating* AA/Stable New

#### Oconee Cnty wtr & swr

*Long Term Rating* AA/Stable Upgraded

## Rationale

S&P Global Ratings raised its long-term rating on Oconee County, Ga.'s water and sewer bonds to 'AA' from 'AA-'. At the same time, we assigned our 'AA' long-term rating on the county's 2017A and 2017B water and sewer revenue bonds. The rating reflects, in our opinion, the combination of an extremely strong enterprise risk profile and a very strong financial risk profile. The outlook is stable.

The upgrade is a result of management successfully working both independently and in regional partnerships to implement an ambitious capital plan while maintaining stronger financial metrics.

The enterprise risk profile reflects our view of the system's:

- Strong population and customer growth in the service area, and participation in the Athens-Clarke County metropolitan area economy;
- Very low industry risk as a monopolistic service provider of an essential public utility;
- Affordable water and sewer rates, which gives management flexibility to generate additional revenue as needed; and
- Good operational management practices and policies.

The financial risk profile reflects our view of the system's:

- Extremely strong all-in coverage of 1.6x to 2x in the past four years;
- Very strong liquidity, with over \$11.5 million in available reserves at the end of fiscal 2016, representing almost 1,000 days' operating expenses;
- Rising but moderate leverage, at just over 40% debt to capitalization following the 2017A issuance; and
- Good financial management practices and policies.

An extremely strong enterprise risk profile and very strong financial risk profile map to an indicative rating of 'AA+' under our criteria. We have applied a one-notch negative adjustment from the initial indicative rating to arrive at the final rating based on our belief that financial metrics, particularly all-in coverage, may decline slightly in the coming fiscal years. Further, some components of the financial risk profile, particularly the nominal amount of available reserves, are more characteristic of 'AA-' rated peers.

The 2017A series is being issued to finance renovations and improvements to the Calls Creek Wastewater Reclamation Facility, and to complete three other projects in the water and sewer capital improvement plans. The 2017B series is being used to refund outstanding water and sewer revenue debt.

The bonds have a rate covenant of 1.15x senior debt service, and 1x junior debt service. The additional bonds test is 1.2x coverage of maximum annual debt service (MADS) in 12 of the most recent 18 months. Payments to Upper Oconee Basin Water Authority (UOBWA) and Walton County Water and Sewerage Authority (WCWSA) in support of revenue bonds and Georgia Environmental Finance Authority notes associated with jointly owned assets are not included in the calculations because the county's obligation is backed by a pledge of ad valorem taxes, as opposed to water and sewer system revenues. The county has used a debt service reserve (DSR) funded at a three-pronged test level for prior bonds, which was funded with a surety policy. The 2017 bonds will not have a DSR.

### **Enterprise risk**

Our assessment of the system's enterprise risk profile as extremely strong reflects the local economy, which benefits from close proximity to Athens and is only 45 miles east of Atlanta. Primarily a suburban, residential area, the county's population has grown by almost 40% since 2000. Local income levels are strong, with a median household effective buying income (MHHEBI) of almost \$62,000, or 132% of the national average, and the poverty rate is 7.9%, well below the national average. The county unemployment rate is also stronger than the national average, at 3.9% in July 2017 compared to the national rate of 4.6%.

Oconee has full rate-setting authority. Given local income levels, we believe water and sewer service rates are affordable, with a combined monthly bill of just over \$90 for 6,000 gallons of water and sewer service, or 1.8% of MHHEBI. The county commission enacted approved annual rate increases through 2021 in July 2017; given the moderate levels of these rate increases (1% annual for water, 4.5% annual for sewer), we believe that management will still have flexibility to generate additional revenue as needed in the future.

The county provides water service to approximately 10,950 retail customers, as well as two wholesale customers: Walton County and Piedmont Water. The sewer system serves approximately 2,400 customers, and has a lower share of residential customers due to a county commission directive to target 50% of sewer capacity to commercial and 20% to industrial customers. Customer growth has been rapid for both systems, with an average annual growth rate of 4% for the water system and nearly 11% for the sewer system during the past four years. We consider the customer base diverse, with the top 10 retail customers accounting for only 13% of total revenues in 2017.

The county's water system provides service to the city of Watkinsville, the town of Bishop, part of the city of Bogart, some unincorporated portions of the county, and two wholesale customers. Oconee County is in two intergovernmental partnerships to develop the local water supply and treatment capacity. It receives 96% of its water supply from Bear Creek Reservoir and Water Treatment Plant, which it jointly owns with other members of UOBWA. The county's 50-year agreement (signed in 1997) with UOBWA allows for the former in each year to buy 12% of the output and services of the Bear Creek Reservoir and 19% of the output and services of the Bear Creek Water Treatment Plant, respectively.

Oconee also has an agreement with neighboring WCWSA to build the Hard Labor Creek project, which includes a 1,370-acre reservoir, a water treatment facility, storage tanks, and a transmission system. Oconee is responsible for

29% of all construction and operating costs associated with the project. Management estimates construction of the reservoir will be complete in 2018, at which point Oconee will have sufficient raw water supply through 2060. The region is likely to need additional treatment capacity in several years, assuming growth continues. At that time, management indicated that Oconee is likely to work with UOBWA or WCWSA again.

The county also owns and maintains four active and nine reserve groundwater wells, which provide approximately 4% of the water supply and also provide storage benefits. It also has emergency interconnections with Athens-Clarke and Barrow counties.

Average and peak daily demand in 2017 were 2.8 million gallons per day (mgd) and 4.0 mgd, respectively. We believe, therefore, that there is sufficient capacity for several years because Oconee is entitled to 4 mgd from UOBWA alone, and management plans to lease another 0.5 mgd to 1 mgd starting next year. The county also has finished water storage of 1.75 million gallons and is building storage for 1 million gallons more.

Oconee owns and operates a wastewater treatment plant (Calls Creek water pollution control plant) and an on-land application facility (Rock Branch Road facility). The Calls Creek plant has a sewer treatment capacity of 0.7 mgd; the renovations financed by the 2017A bond issuance will increase capacity to 1.5 mgd. The Rock Branch Road facility has a capacity of 0.4 mgd. Average demand for the sewer system for fiscal 2017 was 0.9 mgd and the peak demand was 1.6 mgd; management can redirect flows from the Rock Branch Road service area to Calls Creek and has done so recently to keep flows within permitted levels. Management anticipates needing further treatment capacity approximately 10 years from now, and is considering several options, including further expansion of the Calls Creek plant, re-rating the Rock Branch Road facility, and potential intergovernmental options.

Consistent with "Methodology: Industry Risk" (published Nov. 19, 2013, on RatingsDirect), we consider industry risk for the system to be very low, the most favorable assessment possible on a six-point scale, with '1' being the best.

### **Financial risk**

All-in coverage has historically been good, in our view, and has strengthened in recent years. In addition to revenue bonds, Oconee makes regular payments to UOBWA and WCWSA to pay its share of debt and notes issued by those entities for the Bear Creek and Hard Labor Creek projects. Although the intergovernmental agreements specify that Oconee's obligation is backed by an ad valorem tax pledge, in practice, these payments are made from the water and sewer fund, so we have included them in our calculation. All-in coverage was 1.9x in 2014, 1.6x in 2015, 1.9x in 2016, and 2x in 2017 (2017 based on unaudited financial results). Coverage may decline slightly in the coming years as debt service payments and transfers to UOBWA and WCWSA increase; total debt-related payments were \$3.6 million in 2017, but will rise to \$4.1 million in 2018, according to information provided by the county. However, given net revenues reported by the county in recent years, as well as the pre-approved rate increases, we expect that all-in coverage will remain at levels we consider very strong.

The system's liquidity position remains very strong, in our opinion. Available reserves grew from \$4.7 million in 2012 to \$11.5 million at the end of fiscal 2016, and remained over \$11.1 million in fiscal 2017 (unaudited). This represents almost 1,000 days' cash, and management has no further plans to spend down this cash position. The liquidity position is further strengthened by management's plans to fund a substantial portion of the \$29.4 million capital investment plan (2017-2022) from a special-purpose local options sales tax (SPLOST) as opposed to cash in the water and sewer

fund. By using the SPLOST, there are no plans for additional water and sewer revenue debt at this time. At the end of 2016, WCWSA could draw up to \$4.7 million more on its 2015 note from the Georgia Environmental Finance Authority. Under the terms of the intergovernmental agreement for the Hard Labor Creek project, Oconee would be obligated to pay 28.8% of this amount or \$1.3 million.

## **Outlook**

The stable outlook reflects our expectation that the system will maintain at least good all-in coverage and strong liquidity. The system's strong service area economy and pre-approved rate increases also provide stability.

### **Upside scenario**

Following completion of construction of the Hard Labor Creek project and Calls Creek expansion, we could raise the rating if all-in coverage stabilizes at extremely strong levels.

### **Downside scenario**

Should all-in coverage deteriorate below levels we consider good or capital projects force management to significantly spend down unrestricted cash (potentially due to lower-than-anticipated SPLOST revenues), we could lower the rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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