Summary:
Johnson County Water District No.1, Kansas; Water/Sewer

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Credit Profile

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<td>US$107.415 mil wtr rev rfdg bnds ser 2017 A due 01/01/2033</td>
<td>AAA/ Stable</td>
<td>New</td>
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<tr>
<td>US$38.64 mil wtr rev bnds ser 2017 B due 07/01/2042</td>
<td>AAA/ Stable</td>
<td>New</td>
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<td>Johnson Cnty Wtr Dist #1</td>
<td>AAA/ Stable</td>
<td>Affirmed</td>
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<td>Johnson Cnty Wtr Dist #1 2nd lien wtr</td>
<td>AAA/ Stable</td>
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Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Johnson County Water District No.1, Kansas' series 2017 A & 2017 B water revenue bonds. The rating reflects, in our opinion, the combination of an extremely strong enterprise risk profile and an extremely strong financial risk profile. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the district's outstanding bonds. The outlook is stable.

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

- Broad and diverse local area economy, with access to the Kansas City MSA, coupled with the benefits of economies of scale of larger utilities;
- Economically strong and growing customer base;
- Water rates that we view as very affordable in relation to the median household effective buying income (MHHEBI);
- What we view as strong overall operational management.

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

- Extremely strong debt service coverage;
- Extremely strong liquidity position;
- What we view as strong financial management; and
- Debt levels, which we view as low.

The proceeds from the 2017A bonds will be used to refund the district's outstanding series 2007 revenue bonds. The proceeds from the 2017B bonds will be used to fund the construction of an ozone treatment facility.

A pledge on the net revenues of the system secures the bonds. The senior-lien has been closed, and total debt service coverage (DSC) of all liens is, in our opinion, sufficiently strong that we do not make a rating distinction between the
two liens. After the issuance of the 2017A, which will retire the senior lien, the series 2017A and 2017B will be on parity with the district's remaining debt. We view the bond provisions, including planned amendments to the prior parity bond covenants, as credit neutral. The district will maintain a rate covenant at 1.25x annual debt service (ADS). The district's additional bonds test (ABT) calls for net revenues to cover maximum annual debt service (MADS) of all debt, including proposed debt, at least 1.25x. The flow of funds is closed and the excess revenues will be used only to support the utility fund. Additionally, the provisions call for a debt service reserve fund to deposit either cash or an approved surety bond in an amount equal to the amount of 5% of the stated principal amount of parity bonds, 1.25x average annual debt service (AADS) or lesser of MADS.

**Enterprise risk**
Our assessment of the utility system's enterprise risk profile as extremely strong reflects our view of the district's participation in the broad and diverse Kansas City metropolitan statistical area (MSA) steadily growing customer base with strong median household effective buying income (MHHEBI), and consistently strong rate-setting practices, coupled with a strong operational management framework.

Johnson County Water District No. 1 serves about 145,000 customers over a 272-square-mile area in Johnson, Wyandotte, and Miami counties. Most of the district's customers live within Johnson County, including the cities of Overland Park, Lenexa, and part of Olathe. Johnson County is the state's largest, most affluent and, in our opinion, still the most economically vibrant county. The county is home to the world headquarters of Sprint Communications and consulting engineering firm Black & Veatch Corp., as well as corporate headquarters for companies in the pharmaceuticals, biotechnology, and financial services sector. As such, the county's unemployment rate continues to be below the state's and nation's, standing at 3.5%. MHHEBI is strong at over 138% of the state and national levels. There is no significant customer concentration.

For residential customers, based on the district's actual average billing rates, the monthly water bill is about $44. As a percentage of MHHEBI, the 6,000-gallon bill is about 0.8%, which we consider low in relation to the MHHEBI county poverty rate of about 7%. The district maintains a periodically updated rate study as well as a water rate cost of service model. The board has the ability to set its own rates.

Based on our operational management assessment (OMA), we view the water enterprise to be a '1' on a six-point scale, with '1' being the strongest. This indicates, in our view, that operational and organizational policies are comprehensive in nature. The OMA of "strong" includes strong asset management programs for monitoring existing infrastructure, and the ability to make rate adjustments, as well an available comprehensive drought and disaster management plans, if needed. The district obtains raw water from the Kansas and Missouri rivers. These sources provide the system with redundant operations and limit its risk of being reliant on one source of water to meet demand. Treatment capacity from the district's two plants, along with storage, remains sufficient to serve peak day demand.

**Financial risk**
Our assessment of the utility system's financial risk profile as extremely strong reflects our view of the district's extremely strong all-in coverage, extremely strong liquidity position, low debt profile, and good financial management framework.
The district's coverage metrics have ranged from 1.86x in fiscal 2014 to about 2.48x in fiscal 2016 when excluding system development charges, which we consider extremely strong. The district continues to demonstrate a historical trend of extremely strong all-in debt service coverage. The availability of detailed and comprehensive sufficiency and rate studies has allowed management to meet and exceed coverage expectations.

Liquidity is another identified strength of the system. Unrestricted cash and investments have ranged from about $112 million in fiscal 2014 to about $107 million in fiscal 2016. The unrestricted cash and investments at fiscal year-end stood at the equivalent of 784 days' cash on hand. In relation to the district's capital improvement plan, these amounts may slightly fluctuate. However, based on management's forecast, we expect the unrestricted liquidity position to remain extremely strong.

Currently, we consider the system's debt-to-capitalization ratio as low at 23.3%, with just over $263 million of debt outstanding after including this issuance. The district maintains a comprehensive multi-year capital improvement plan and management is not expecting to issue additional debt within the outlook horizon.

Based on our financial management assessment (FMA), we view the district as a '1' on a six-point scale, with '1' being the strongest. We also assigned a FMA of "strong," indicating we consider financial practices extremely good and comprehensive. The district maintains a five-year rolling annual capital and personnel budget and any deviations from projections are analyzed. The adherence to a comprehensive capital improvement plan, audits that comply with generally accepted accounting principles (GAAP), as well as a detailed and codified investment policy are also considered credit positive.

**Outlook**

The outlook reflects the expectation of overall strong economic stability, coupled with maintenance of extremely strong coverage and liquidity levels.

**Downside scenario**

Given the economic and financial strength a lower rating is not likely. However, should there be a prolonged drop in financial metrics the rating could be lowered.

<table>
<thead>
<tr>
<th>Ratings Detail (As Of September 22, 2017)</th>
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<tbody>
<tr>
<td>Johnson Cnty Wtr Dist #1 wtr rev bnds ser 2007 dtd 04/01/2007 due 06/01/2010-2026 2032 12/01/2010-2026 2028 2030</td>
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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 for further information. Complete ratings information is available to subscribers of RatingsDirect at 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. Use the Ratings search box located in the left column.