



Rating Action: Moody's upgrades Tacoma Water, WA's water system and regional water supply system revenue bonds to Aa1 from Aa2, assigns Aa1 to 2024 bonds; outlook remains stable

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NOTE: On January 4, 2024, the press release was corrected as follows: In the first paragraph, the second sentence was changed to "Post issuance, the city will have outstanding about \$220 million in water system revenue bonds and \$77 regional water supply system revenue bonds. The outlook remains stable." Revised release follows.

New York, January 02, 2024 -- Moody's Investors Service has upgraded the City of Tacoma, Washington Water Enterprise's (Tacoma Water) outstanding water system revenue bond and regional water supply system bonds to Aa1 from Aa2 and assigned Aa1 ratings to the approximately \$66.8 million Water System Revenue Refunding Bonds, Series 2024 (Green Bonds) and \$32.0 million Regional Water Supply System Revenue Refunding Bonds, Series 2024 (Green Bonds). Post issuance, the city will have outstanding about \$220 million in water system revenue bonds and \$77 regional water supply system revenue bonds. The outlook remains stable.

The upgrades to Aa1 reflect the economic strengthening of the service area, which is materially larger than the city; strong system characteristics, including ample capacity and water resources; and demonstrated ability and willingness to raise rates with ease in order to absorb the loss of its largest customer, without material anticipated effect on financial metrics. The upgrade for the regional water supply system bonds incorporates the gross revenue pledge of payments received from participants in the regional system, making them effectively senior to their other debt, and the backup pledge by Tacoma Water gross revenues in the event of non-payment by a participant other than Tacoma.

RATINGS RATIONALE

The Aa1 Tacoma Water System (TWS) bond rating reflects the utility's growing service area and improving resident income levels, given its location within the Puget Sound region's robust economy. The customer base is broad and diverse, served by a local system larger than the city and augmented by a regional second water supply. Major capital projects are complete and the ample, high-quality, long-lived water supply is expected to comfortably exceed demand for years to come. The rating further reflects the utility's long-term financial stability, including sustained strong liquidity and debt service coverage, with sophisticated management of regulatory compliance and a ten-year capital program. The utility has an excellent rate-setting record, which was demonstrated following the recent closure announcement by its largest customer, with rate increases to maintain financial metrics in excess of targets, as well as equitable and affordable customer rates. Debt levels are manageable and will continue to decline as capital spending is funded from cash and revenues through fiscal 2027.

The Aa1 regional water supply (RWSS) bond rating reflects their effective seniority to the participants' other debt, paid

as an operating expense, as well as the materially stronger debt service coverage provided by the backup pledge of Tacoma's water system gross revenues in the event of non-payment by another participant.

RATING OUTLOOK

The stable outlook reflects our expectation that the Tacoma Water will continue to effectively manage its water system rates and regional participant agreements to maintain strong financial metrics in excess of policy targets. It further reflects our expectation that operations will remain manageable given favorable system conditions and ample capacity to meet population growth.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Continued increase in resident incomes
- Further broadening of the service area with expanded economic diversity

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Deterioration of financial position
- Increased leverage

LEGAL SECURITY

Security for the TWS bonds is a pledge of the net revenues of the Tacoma water system.

Security for the RWSS bonds is a gross pledge of RWSS revenues, subject only to the prior payment of RWSS operating expenses. RWSS revenues consist of all receipts derived by the city through RWSS ownership and operation, including amounts due from regional participants under agreements for RWSS operations, capital requirements and debt service. RWSS debt service payments are contractual obligations of the regional participants with remaining shares of the outstanding bonds, including of Tacoma Water System. As such, RWSS costs, including the payment of operating expenses and debt service, are payable as TWS operating expenses, prior to TWS bond debt service. If a participant other than Tacoma Water fails to make its RWSS payment obligation, Tacoma Water is obligated to increase its RWSS payment to the extent another participant does not, including paying debt service on the RWSS bonds.

USE OF PROCEEDS

Proceeds of the TWS bond issuance will be used to refund \$74.4M in outstanding 2013 bonds for debt service savings.

Proceeds of the RWSS bond issuance will be used to refund \$49.9 million in outstanding 2013 bonds for debt service savings, along with a capital contribution by Covington Water District and a debt service reserve release to defease the district's share of outstanding 2013 bonds.

PROFILE

Tacoma Water is the second largest publicly-owned water utility in the Pacific Northwest. The utility provides retail service to a population of over 318,000 in a service area that extends well beyond the City of Tacoma (Aa2 positive) into the urbanized areas of Pierce County (Aaa stable) and southern King County (Aaa stable) and includes the cities of Puyallup, Federal Way, Lakewood, Fircrest and University Place. The service area is economically diverse and contains a major deepwater port, health care and higher education institutions, local government, manufacturing, military and professional services.

While the Tacoma owns and operates the RWSS, it does so on behalf of regional partners under a 2002 Second Supply project agreement and other repayment agreements, which define the participants' share of costs and entitlement to use a share of the water supply project. RWSS participants include the cities of Tacoma and Kent, Covington Water District and Lakehaven Water and Sewer District.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt Methodology published in April 2022 and available at <https://ratings.moodys.com/rmc-documents/386721>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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