

## Research Update:

# Denver City And County, CO Series 2025A Water Revenue Refunding Bonds Assigned 'AAA' Rating

July 28, 2025

## Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the [City and County of Denver](#), Colo.'s, acting by and through its [Board of Water Commissioners](#) (Denver Water), anticipated \$190.5 million series 2025A water revenue refunding bonds.
- At the same time, we affirmed our 'AAA' long-term rating and our 'A-1+' short-term rating on Denver Water's existing water revenue bonds and existing commercial paper (CP) notes, respectively.
- The outlook, where applicable, is stable.

## Rationale

### Security

The proceeds of the series 2025A bonds will be used for refunding activities, including \$200 million of CP takeout along with a potential refunding of the series 2014A bonds for economic savings. The bonds are secured by a lien on net revenues of the water system. We view the bond provisions as credit neutral. The indenture has a 1.1x rate covenant and a coverage test of 1.2x on future average annual debt service to issue additional parity bonds. As of Aug. 1, 2025, Denver Water has approximately \$1.3 billion of long-term water revenue debt obligations outstanding.

### Credit highlights

The long-term rating reflects our opinion of the Denver Water utility system's general creditworthiness. We also view the Denver Water system's financial profile as robust, benefiting from both a large liquidity position and healthy all-in debt service coverage (DSC) that has consistently exceeded 2x historically. The strength of the system's financial metrics provides a strong cushion, in our view, to mitigate potential disruptions. In addition, management instituted strong operational and financial policies, including mainstreaming of climate-change adaptation, into Denver Water's capital program, with contingency plans to ensure minimal disruptions in

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service provided. The strong and growing underlying economic conditions of the service area also stabilize the overall credit fundamentals.

Based on its financing plan, Denver Water's capital spending is gradually moderating from the peak years of its capital improvement plan (CIP) and is transitioning to focus on asset management and system optimization. As a result of its CIP needs, we understand that the Denver Water board approved a 5% revenue adjustment for 2025, with anticipated rate adjustments in the near term to meet cost-of-service requirements. The utility's financial outlook is strong and achievable, in our view, despite the layering of additional debt needs to fund its approximately \$1.1 billion capital plan over the next five years (with about 50% debt-financed). We believe management will continue to adjust rates to fund its CIP, while maintaining healthy all-in DSC metrics and liquidity. Management has also demonstrated an ability to navigate unpredictable hydrological cycles through adopting rate adjustments as needed while building prudent financial reserves and water storage to mitigate hydrologic variability. Denver Water's recent bounce-back in water sales resulted in a 19% increase in fiscal 2024 operating revenue over the lower water sales from wet weather conditions in 2023.

Denver Water is working on expanding Gross Reservoir, which is expected to add 77,000 acre-feet of storage capacity. This expansion is crucial for preventing shortages during droughts and balancing the utility's collection system. Denver Water is a party to ongoing litigation relating to the permitting for the Gross Reservoir Expansion Project. It appealed the district court's orders, and that appeal is ongoing. The recent court ruling has allowed Denver Water to continue construction of the dam enlargement. We will continue to monitor the litigation process and its effects on operational flexibility.

Additional credit factors reflect our view of Denver Water's:

- Role as the service provider to the anchor and namesake city in the broad and diverse Denver-Aurora-Lakewood metropolitan statistical area economy (MSA), which is economically strong;
- Demonstrated ability and willingness to increase rates, and rates that we believe are affordable for the region at about 1% of median household effective buying income (MHHEBI);
- An operational management assessment of strong, which indicates a favorable alignment of operations and management's strategic goals, including long-range financial and capital planning, with management's identification of supply reliability supported by a history of rate adjustments;
- Low leverage based on a pro forma debt-to-capitalization ratio of about 33% that we expect will increase given additional debt plans; and
- Strong financial management assessment, indicating that the highest level of internal financial controls and best practices are in place.

## **Environmental, social, and governance**

We analyzed Denver Water's environmental, social, and governance (ESG) risks relative to its enterprise and financial risk profiles and view its ESG risks as neutral in our credit rating analysis. Like peers in the western U.S., Denver Water faces slightly above-average physical environmental risk and challenges from population growth, climate change, and drought conditions. Even though approximately half of its water supply (from the Colorado River) remains susceptible to environmental scrutiny, the specific portion of the Colorado River watershed that supplies Denver Water has not experienced the same level of drought conditions as have existed in the entire Colorado River basin. The seven western states that draw from the Colorado River, along

with the U.S. Bureau of Reclamation (USBR), are currently renegotiating the current operating framework for the Colorado River, which expires in 2026. The federal government has been engaged in the process and has set a deadline of November 11, 2025 for a state-led consensus solution. If operating guidelines expire, parameters may revert to pre-2007 norms and the federal government could set allotments annually, which we believe would compromise the planning and predictability of water supply for off-takers throughout the region.

Denver Water uses an Integrated Resource Planning process to prepare for future supply and demand uncertainties by planning for a range of plausible alternative future conditions. Despite its growth, Denver Water has demonstrated its commitment to reduce usage through water-use efficiency and conservation. In addition, the utility has almost 700,000 acre-feet of storage capacity that it manages to meet customer demands. Denver Water has been addressing aging infrastructure and is also proactively implementing a holistic lead-management strategy that requires an accelerated lead-service-line replacement schedule (known as the "Lead Reduction Program") as part of its strategic priorities. Management regularly provides a framework for making several investments across its facilities and distribution network to reduce the system's environmental risks, including robust wildfire mitigation and watershed protection planning.

Denver Water has strong management practices and policies, which, in our view, mitigate governance risks compared with those of peers. Given its recent history of modest rate-increase approvals, we view the utility as having the ratemaking flexibility needed to preserve the system's financial position and maintain affordability within its service area. Denver Water is also sensitive to affordability concerns and has a formal customer assistance program; we do not believe near-term rate increases will significantly pressure affordability or social risks, given the monthly water bill is only 1% of local incomes.

### **Rating above the sovereign**

The rating on Denver Water is above the sovereign because all revenue is locally generated. It has a predominantly locally derived revenue base (see "[Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#)," Nov. 19, 2013). Local service charges, derived through an autonomous rate-setting process, represent virtually all the entity's revenues. This, coupled with operating expense flexibility, limit exposure to federal revenues and allows the rating to exceed that of the U.S.

## **Outlook**

The stable outlook reflects our anticipation that the underlying enterprise and economic strengths that benefit Denver Water should continue to produce financial metrics consistent with the current rating level. Supporting this view is management's commitment to consistent rate adjustments to help support increasing fixed costs as it progresses through its CIP. In addition, we believe its financial profile could withstand potential short-term disruption from economic headwinds.

### **Downside scenario**

We do not anticipate lowering the rating over the two-year outlook horizon as long as management continues to produce financial metrics that are consistent with or exceed historical trends while successfully funding its CIP. However, any unexpected economic or financial shock, which could potentially significantly disrupt the system's operations, or any unanticipated and

extraordinarily large change in the CIP that could alter related financial metrics, could present downward pressure on the rating or outlook at any time.

## Credit Opinion

Denver Water has a combined service area of 335 square miles and serves a population of approximately 1.5 million, including Denver and various outlying cities and water districts. Denver serves as a trade and transportation center for the greater Rocky Mountain region, and its diverse employment base includes government, finance, and telecommunications firms.

The system serves approximately 325,000 treated-water customers, of which approximately 76% are metered general customers. The remaining 24% include wholesale customer accounts outside the City and County of Denver with fixed contract amounts. By customer count, the system is predominantly residential, and it does not have any reliance on any of its principal retail customers for a disproportionately large share of operating revenues. We note that most of the wholesale customers are, in essence, municipalities that provide retail services to mostly residential customer bases.

Water consumption has been stable for the past five years, which, according to management, can be attributed to water efficiency and conservation efforts. In the past five years, the peak consumption has not exceeded 383 million gallons per day. As the water system is older, Denver Water secured most of its needed water rights and paid for initial system infrastructure long ago. Most of its water supply is derived from surface water sources. We understand that management continues to explore ways to increase storage and throughput for future growth. The utility also developed strategic plans and regional cooperative initiatives to provide long-term, reliable supplies in the face of changing climatic conditions and a growing customer base.

### Denver Board of Water Commissioners, Colorado--Economic and financial data

	Most recent	Fiscal year-end			Median (AAA)
		2024	2023	2022	
Economic data					
MHHEBI of the service area as % of the U.S.	110.0				114.0
Unemployment rate (%)	4.4				3.4
Poverty rate (%)	10.5				10.3
Water rate (6,000 gallons or actual) (\$)	62.8				33.3
Annual utility bill as % of MHHEBI	1.0				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenues (\$000s)	395,601	331,774	362,419		73,371
Total operating expenses less depreciation (\$000s)	270,157	251,400	228,651		53,231
Net revenues available for debt service (\$000s)	224,889	167,296	206,858		--
Debt service (\$000s)	74,814	70,074	53,231		--
S&P Global Ratings-adjusted all-in DSC (x)	2.9	2.4	3.9		2.6
Unrestricted cash (\$000s)	245,201	216,481	285,553		90,711
Days' cash of operating expenses	331	314	456		713
Total on-balance-sheet debt (\$000s)	1,548,134	1,333,349	1,260,090		140,491

Denver Board of Water Commissioners, Colorado--Economic and financial data

	Most recent	Fiscal year-end			Median (AAA)
		2024	2023	2022	
Debt-to-capitalization ratio (%)		35.9	33.3	32.4	26.0
Financial management assessment	Strong	--	--	--	Strong

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List

New Issue Ratings

US\$190.465 mil wtr rev rfdg bnds (Denver Board of Water Commissioners) ser 2025A due 09/15/2055	
Long Term Rating	AAA/Stable

Ratings Affirmed

Water & Sewer

Denver Board of Water Commissioners, CO Water System Revenues	A-1+
Denver Brd of Wtr Comr, CO Water System	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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