

Research Update:

Peoria, AZ Series 2026 Water And Wastewater Revenue Obligations Assigned 'AA+' Rating; Outlook Stable

May 1, 2026

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to Peoria, Arizona's \$32.3 million series 2026 water and wastewater revenue obligations.
- At the same time, we affirmed our 'AA+' long-term rating on the city's existing water and wastewater revenue obligations.
- The outlook is stable.

Rationale

Security

Purchase payments from Peoria to the trustee pursuant to a city purchase agreement secure the obligations. Net revenue from the city's water and wastewater systems secures the purchase payments. We view the obligation covenants as credit-neutral, with both a rate covenant and additional bonds test of 1.25x. The 2026 obligations will be used to fund projects outlined within the city's capital improvement plan (CIP), primarily focusing on wastewater system maintenance and upgrades. Post-issuance, the system will have roughly \$122 million in revenue debt outstanding.

Credit highlights

The rating reflects our view of a proactive management team with high operational and financial oversight, leading to consistently robust debt service coverage (DSC) and ample liquidity. The rating is further supported by the city's favorable location as a suburb of Phoenix, with a strong economic base and affordable utility rates. We see these strengths as particularly supportive of credit quality when assessing the regional challenges given the city's desert location and ongoing concerns with water stress associated with the Central Arizona Project (CAP)'s reliance on

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Colorado River water. (For more information, see "[Dry Run: The High Stakes Race Redefining The Colorado River's Downstream Credit Challenges](#)," March 19, 2026.)

With strong support from city council and the flexibility that above-average incomes provide, management has been able to implement frequent rate increases, leading to sustained all-in DSC at robust levels, averaging 4.3x over the past three fiscal years. Rates will continue to increase to support both the current debt issuance as well as ongoing capital needs. Given the sizeable margins we are expecting even as debt is layered in, liquidity is also likely to remain robust at around 500 days' cash. The city provides water and wastewater services to roughly 65,000 customers in an area that continues to experience consistent growth.

The rating further reflects our view of the system's:

- Affluent service area serving a primarily residential customer base that benefits from its access to the Phoenix metropolitan area, with rate-raising flexibility given its highly affordable rates;
- Robust liquidity position and all-in coverage levels guided by proactive management, with financial stability expected over the next several years. Our all-in coverage calculation includes the system's annual fixed-capacity capital payment associated with CAP, which we view as debt-like in nature, even if legally treated as an operating expense;
- Very low debt burden, even when considering the current issuance and additional expected debt issuances outlined in the CIP; and
- Management practices that we view as forward-looking, with innovative technologies that prioritize water reuse, robust rate-setting methodology, and sophisticated alignment of operational and financial priorities.

Environmental, social, and governance

Peoria faces significantly elevated environmental risk, in our view, which could pressure credit quality over the long term if mitigation efforts do not keep pace with hydrological conditions. The city is reliant on the plans set forth by the CAP, which sources its water from the Colorado River. Negotiations regarding Colorado River allocations are at an impasse, with Upper and Lower Basin states continuing with negotiations over proposed water cuts given the worsening drought and near-record low reservoir levels at Lake Mead and Lake Powell. If the states fail to reach a consensus by Oct. 1, 2026, the federal government could impose cuts. We will monitor the negotiations and what actions Peoria might take to mitigate any negative outcome and continued poor hydrological conditions along the river. However, given historical resiliency projects, such as conservation and the drilling of additional wells, we anticipate the city will continue to target diversity within its water portfolio and can rely on stored water during any interim period of allocation reductions. Because of the desert climate, Peoria prioritizes its water security and has day-to-day water conservation measures as well as drought-contingency plans in place. The city's water-distribution network is also comparably efficient, and its lost-water percentage is below 10%.

Given the regional strength of Phoenix's MSA, with steadily growing employment opportunities, as well as Peoria's affordable utility rates, we do not consider social risks as elevated. We also view the city's governance as strong, with codified long-term planning that is well integrated across the organization and operations. The city takes reasonable steps toward the cyber security of its utilities and city government through segmentation of networks and vulnerability tracking and remediation. However, we are monitoring the status of Arizona House Concurrent

Resolution (HCR) 2052, that, if enacted, would impose a four-year rate freeze on municipal utility bills, which would significantly worsen our view of governance.

Outlook

The stable outlook reflects our opinion that management will sustain strong DSC, which provides a great deal of resiliency, in combination with strong reserves given management's ability to layer on additional debt plans due to highly affordable rates. The city's solid income levels, favorable location, and access to the larger metropolitan area also lend stability to the rating.

Downside scenario

Although we regard this as unlikely, in the longer term we could lower the rating if all-in coverage significantly declines below management's forecast due to an unanticipated and extraordinarily large change in its CIP or higher-than-expected operating costs, including significant spend-down of unrestricted reserves. Moreover, there could be downward rating pressure if Colorado River reallocations significantly disrupt Peoria's water supply.

Upside scenario

Given the service area's growth pressures and the accommodating capital needs, in addition to uncertainty surrounding the Colorado River supply, we do not anticipate raising the rating in the next two years.

Peoria, Arizona--Economic and financial data

	Most recent	Fiscal year-end			Median (AA+)
		2025	2024	2023	
Economic data					
MHHEBI of the service area as % of the U.S.	119.0				112.0
Unemployment rate (%)	3.5				3.4
Poverty rate (%)	10.4				10.2
Water rate (6,000 gallons or actual) (\$)	48.0				33.9
Sewer rate (6,000 gallons or actual) (\$)	34.2				38.6
Annual utility bill as % of MHHEBI	1.2				1.0
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)		108,640	133,988	97,952	41,982
Total operating expenses less depreciation (\$000s)		80,643	88,450	69,209	31,740
Net revenues available for debt service (\$000s)		46,241	69,924	34,277	--
Debt service (\$000s)		12,710	11,335	10,776	--
S&P Global Ratings-adjusted all-in DSC (x)		3.4	5.6	2.9	2.5
Unrestricted cash (\$000s)		118,030	117,660	105,587	55,536
Days' cash of operating expenses		534	486	557	650
Total on-balance-sheet debt (\$000s)		86,926	96,948	106,435	74,352
Debt-to-capitalization ratio (%)		14.3	12.2	14.4	25.0
Financial management assessment	Strong	--	--	--	Good

Peoria, Arizona--Economic and financial data

	Most recent	Fiscal year-end			Median (AA+)
		2025	2024	2023	

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\$32.315 mil wtr and wastewtr rev bnds ser 2026 dtd 06/08/2026 due 07/15/2056

Long Term Rating AA+/Stable

Ratings Affirmed

Water & Sewer

Peoria, AZ Water and Sewer System AA+/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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