

# RatingsDirect®

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## Summary:

# Belton, Missouri; Water/Sewer

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## Summary:

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### Credit Profile

US\$2.51 mil swg sys rfdg rev bnds ser 2020 due 01/01/2036

*Long Term Rating* AA-/Stable New

Belton swg

*Long Term Rating* AA-/Stable Upgraded

## Rationale

S&P Global Ratings raised its long-term rating to 'AA-' from 'A+' on Belton, Mo.'s outstanding sewerage system revenue bonds. At the same time, S&P Global Ratings assigned its 'AA-' long-term rating to the city's series 2020 sewerage system refunding revenue bonds. The rating reflects our opinion of the sewerage system's very strong enterprise and financial risk profiles. The outlook is stable.

The rating action reflects our clarity regarding the sewerage system's recent and projected financial performance, which we view as commensurate with a higher rating, even with the significant increase in annual debt service costs which began in fiscal 2018. The sewerage system's very strong historical and projected financial metrics are largely driven by management's willingness to implement significant annual rate increases, including a 12.5% increase this year, to offsite rising costs.

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

- Service area participation in the broad and diverse Kansas City metropolitan statistical area economy,
- Very low industry risk as a monopolistic service provider of an essential public utility,
- Affordable retail service rates within the service area that provide headroom for additional rate increases; and
- An organizational and operating profile that has generally done an adequate job of addressing key risks but is otherwise credit neutral.

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

- Extremely strong historical all-in debt service coverage (DSC) exceeding 2.2x, as calculated by S&P Global Ratings, which we believe is sustainable based on our expectation that management will contain to raise rates on an annual basis;
- Very strong liquidity, with \$8.2 million, or 813 days' cash on hand as of March 31, 2019, which may be partially spent down on capital projects over the upcoming five-year period; however we expect liquidity to remain at levels that we consider consistent for the rating;
- Moderately low system leverage, as measured by a 37.8% debt to capitalization as of March 31, 2019, and bolstered by the system's lack of near-term additional debt plans; and

- Good financial management practices and policies, with financial practices that are comprehensive, well embedded, and likely sustainable.

The sewerage system will use the series 2020 bond proceeds to refund the series 2010AB bonds for debt service savings. The bonds will be on parity with an outstanding \$12.1 million loan from the Missouri Environmental Improvement and Energy Resources Authority. The city has \$498,000 of remaining bond authorization from an April 2, 2013 voter approval of \$14.5 million of sewer system revenue bonds. The city does not have plans to additional sewerage system bonds at this time. The sewerage system has no direct purchase or bank loans outstanding.

Bond provisions, in our opinion, are credit neutral. Belton's pledge of sewerage system net revenue secures the bonds. The system's rate covenant is set with net revenue at least equal to 1.1x annual debt service requirements. There will not be a debt service reserve for the bonds.

The additional bonds test allows Belton to issue additional parity debt if net revenue for the fiscal year immediately preceding the issuance of additional bonds covers average annual debt service of existing and proposed debt by at least 1.1x; or projected net revenue for the fiscal year immediately following the fiscal year in which system improvements, funded by the issuance of additional bonds, covers average annual debt service of existing and proposed debt by at least 1.1x.

### **Enterprise risk**

Belton (population: 23,546) encompasses approximately 16 square miles in western Missouri's Cass County, about 20 miles south of downtown Kansas City. With direct access to Kansas City, Belton's local economy draws from the larger Kansas City metropolitan area. The city is growing as the Kansas City metropolitan area economy continues to expand. Its population has increased by 1.6% between 2013 and 2018; however, the number of service connections grew at an average annual rate of about 6.8% over this period, which we consider significant. The sewerage system served 8,138 customers as of March 31, 2019. The county's unemployment rate was below both state and national averages at about 3% as of December 2019. Median household effective buying income is 108% of the national level in Belton, which we consider strong.

The system maintains 110 miles of sewers and eight pumping stations that transmit wastewater to the city's treatment facility and Little Blue Valley Sewer District in Independence, Mo., approximately 25 miles to the north. Belton's average daily flow was 2.4 million gallons per day (mgd) in fiscal 2019, with 1.4 mgd treated by Little Blue Valley, and the remaining treated by the city's facility. Belton's treatment facility has the capacity to treat 2.26 mgd.

Despite recent growth, city officials believe the system's capital needs are limited because projections show that areas likely to experience further development would be in the part of the city where Little Blue Valley provides sewer treatment services. Little Blue Valley is a regional sewer system that serves a population of about 375,000 in the Kansas City metropolitan area. Belton accounts for about 3.5% of Little Blue Valley's capacity, and the city can provide sewage to the district through an ongoing service contract authorized in 1983. We understand Little Blue Valley does not currently plan to issue additional debt, however, Belton conservatively estimates that its payments to Little Blue Valley will rise by about 5.0% per annum over the next five years as its flows to the district rise with Belton's customer growth.

The sewage system is well maintained, with assets logged in a GIS database and monitored via SCADA. There is no formal succession plan but the utility typically promotes from within and provides training to allow staff to develop into more senior roles. I&I is a primary focus of the CIP and there are no regulatory or growth related pressures. City officials review user rates annually, typically passing through Little Blue Valley's treatment costs. The city charges uniform rates its customers and there is no rate differential for customers whose waste is treated by Little Blue Valley versus by the city.

The city most recently increased system rates 12.5% in 2019, resulting in a monthly bill of \$76.37, assuming a residential average consumption of 6,000 gallons of sewer usage. When annualized, the bill represents 1.7% of the city's median household effective buying income. Based on S&P Global Ratings' criteria for rate affordability, which measures the utility bill burden to the household in light of local income indicators and the relative poverty level, we characterize rates as affordable.

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

### **Financial risk**

We consider the system's coverage metrics to be an identified strength. S&P Global Ratings' calculation of all-in DSC, which includes costs associated with payments to Little Blue Valley, exceeded 2.2x in both fiscals 2018 and 2019 (year ended March 31) which we consider very strong. Fiscal years 2018 and 2019 cash and investments totaled approximately \$8.2 million, and provided 813 and 897 days' cash on hand, respectively.

Management has been actively building cash levels and we expect the system may draw cash down modestly to fund capital improvements over the two-year outlook period but remain at levels exceeding one year's operations. Based on management's forecast, which is predicated on 5% per annum rate increases, we anticipate that all-in DSC will remain at current levels.

Recent and planned capital needs are focused on renewal and replacement of the city's aging sewerage system infrastructure. Management continues to work systematically to reduce inflill and infiltration (leakages) and sanitary sewage overflows during wet weather events, and expects to fund \$4.4 million of improvements in fiscal 2021, with annual capital spending declining to about \$1.5 million thereafter. The system complies with all regulatory and environmental requirements.

The sewerage system regularly reports financial performance to the city council. The system's CIP, as well as its long-term financial projections, are updated annually. The sewerage system, however, does not have formalized policies for debt or investment management. The city's employees are covered by the Missouri Local Government Employees' Retirement System (LAGERS). LAGERS is an agent multiple-employer, statewide public employee pension plan established in 1967 and administered in accordance with Revised Statutes of Missouri (RSMo). The city's pension funded ratio is above 90% in the past three years although it made just under 100% of its annual required pension contribution in fiscal 2019. As of fiscal 2019, the city's OPEB liability totaled \$817,648. Given the well-funded status of LAGERS and the relatively small total pension and OPEB liability, we do not expect post-employment benefits to pressure the sewerage system's budget over the near term.

## **Outlook**

The stable outlook reflects S&P Global Ratings' expectation that the sewerage system will continue to closely monitor its rate structure to maintain very strong liquidity and coverage of annual debt service payments.

### **Upside scenario**

While unexpected over the two-year outlook period, we could take a positive rating action if the sewerage system builds liquidity to levels commensurate with that of peers at a higher rating level.

### **Downside scenario**

We could lower the rating if rising costs and capital needs compromise ratemaking flexibility and metrics decline, although we don't anticipate that that will occur over the next two years. Similarly, an erosion in MHHEBI or county GDP would also likely result in a negative rating action.

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