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Ratings

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Summary:

Little Blue Valley Sewer District (Jackson & Cass Counties), Missouri; Water/Sewer

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Credit Profile		
US$83.33 mil swr sys rev bnds ser 2019 due 09/01/2040		
Long Term Rating	AA-/Stable	New
Little Blue Vy Swr Dist swr sys rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Little Blue Vy Swr Dist taxable swr sys rev Build America bnds		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Little Blue Valley Sewer District (Jackson & Cass Counties), Mo.'s series 2019 sewer system revenue bonds and affirmed its 'AA-' rating, with a stable outlook, on the district's existing sewer system revenue debt.

The rating reflects our opinion of the district's:

- Participation in the Kansas City area economy;
- Generally strong credit quality of the leading wholesale customers;
- Overall healthy finances, using planned rate-stabilization-fund drawdowns to supplement operations, coupled with very strong liquidity;
- Regular rate increases; and
- Lack of additional debt plans.

The district's net sewer system revenue secures the bonds.

Officials intend to use series 2019 bond proceeds to advance refund a portion of series 2010 bonds outstanding.

The 280-square-mile district provides sewer service for 14 wholesale customers in western Missouri, mostly in Jackson and Cass counties, where it serves a population estimate of 375,000. Median household effective buying incomes for Jackson and Cass counties are 90% and 116%, respectively, of national levels.

The district directly or indirectly collects and treats wastewater generated by customers pursuant to each customer's service contract. Management indicates average daily treatment capacity during the next few years is sufficient for the service area. The system treats an average of about 33 million gallons per day (mgd) with maximum dry- and wet-weather capacities of 52 mgd and 400 mgd, respectively. We understand the district is not facing any significant regulatory-related issues.

Finances have decreased recently as debt service has increased. Management, however, has historically supplemented operations with planned rate-stabilization-fund drawdowns. Operating revenue increased to $25.5 million in fiscal 2018 from $22.8 million in fiscal 2016; debt service increasing to more than $16 million and $17 million during fiscal years 2015-2018, however, somewhat offset higher operating revenue.

Total debt service coverage (DSC)--including build America bonds subsidies related to series 2010 bonds since 2015--has ranged from 0.96x-1.14x. Including planned rate-stabilization-fund drawdowns, all-in DSC improves to more than 1.2x in fiscal years 2017 and 2018 from a low 1.1x in fiscal 2016.

Liquidity has remained, what we consider, very strong. At fiscal year-end Sept. 30, 2018, the district had roughly $15 million of unrestricted cash and investments, or nearly 500 days' cash on hand. The long-term financial plan shows steady revenue growth based on scheduled rate increases. Management will supplement fiscal years 2019 and 2020 operations with planned rate-stabilization-fund drawdowns while increasing customer-service charges between 2% and 5% annually through fiscal 2023. Officials expect to maintain DSC between 1.1x and 1.2x through fiscal 2023, and they are projecting DSC will increase beyond fiscal 2024 as they repay debt service.

The district currently has about $150 million of debt outstanding. The debt-service schedule shows debt service increasing through fiscal 2023, followed by a significant decrease; however, a large $20 million final payment is due in fiscal 2040. Officials do not currently plan to issue additional debt.

Bond provisions are somewhat permissive, in our opinion. The district can issue additional debt if projected net revenue during the subsequent two fiscal years following parity debt issuance covers average annual debt service by, at least, 1.1x for existing and proposed debt. The rate covenant is a sufficiency covenant. The flow of funds is closed.

Outlook

The stable outlook reflects S&P Global Ratings' opinion the district will likely make timely rate increases to stabilize operations while maintaining, at least, adequate DSC, following the increase in debt-service amortization. We believe the service base's underlying strength provides additional rating stability.

Downside scenario

We could lower the rating if the financial profile were to weaken; management cannot maintain, at least, adequate DSC following planned service-charge increases; or liquidity were to erode, whether from relying on reserves to meet operating needs or capital expenditures.

Upside scenario

Due to thinner operations and planned accumulated reserve drawdowns to maintain, what we consider, just-adequate financial operations, we do not expect to raise the rating during the next two years. All else being equal, however, we could raise the rating if management were to maintain extremely strong all-in DSC without using accumulated reserve drawdowns consistently.

Little Blue Valley Sewer District

The district, formed in 1968, has its own sewerage treatment plant and collection system. It exclusively serves 14 communities. Service contracts state that users will not construct or permit sewage treatment works that will compete with the district and that the district will permit and encourage sewer districts and other users in the district to use the system for sewage treatment. Contracts also provide that no sewer district or user will be permitted to connect to the system unless it has entered into an agreement with the district, substantially in the same form as all other service contracts, and that when such district or user connects to the system, it will pay its pro rata share for services.

Contracted members include:

- The cities of Belton, Blue Springs, Grandview, Independence, Kansas City, Lake Tapawingo, Lee's Summit, Raymore, Raytown, and Sugar Creek;
- Jackson County;
- Lake City Army Ammunition Plant, a federal installation;
- Fort Osage School District; and
- Middle Big Creek.

The district is not looking to add any additional wholesale users. In the event a customer cannot pay its proportionate share, the district can reapportion the payments among the remaining customers. Leading system customers are:

- Lee's Summit (25% of fiscal 2018 flow),
- Independence (21%),
- Raytown (11%),
- Grandview (9%), and
- Kansas City (9%).

A majority of the district's board must approve rate increases. The district approves the budget annually and bills customers quarterly based on the adopted budget. This insulates the district from any sewage-flow volatility.