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Summary:

Public Water Supply District No. 1 of Macon County, Missouri; Water/Sewer

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Credit Profile

US\$2.64 mil wtrwks rfdg rev bnds ser 2020 dtd 10/13/2020 due 12/01/2032

Long Term Rating

A-/Stable

New

Macon Cnty Pub Wtr Supp Dist #1

Long Term Rating

A-/Stable

Affirmed

Rating Action

S&P Global Ratings assigned its 'A-' long-term rating to the Public Water Supply District No. 1 of Macon County (PWSD1, or the district), Mo.'s series 2020 waterworks refunding revenue bonds. At the same time, S&P Global Ratings affirmed its 'A-' long-term rating on PWSD1's revenue bonds outstanding. Net revenue of the district secures the bonds. The outlook is stable.

PWSD1 will use the series 2020 bond proceeds to refund the series 2014 bonds. As of Dec. 31, 2019, the district had \$5.4 million of debt outstanding.

Credit overview

PWSD1 serves water in several counties of north central Missouri, 50 miles north of Columbia. In fiscal 2019, the district served 4,852 customer accounts about 437 million gallons of water.

The rating reflects our view of an adequate enterprise risk profile, including:

- Vulnerable service area economic fundamentals, reflected by the small number of customer accounts and incomes in the service area below the country's median household effective buying income (EBI);
- Extremely strong industry risk relative to other industries and sectors as a monopolistic service provider of an essential public utility;
- Strong market position, with the district's average monthly residential water bill of 4,400 gallons totaling about \$46, or 1.5% of median household EBI; and
- Strong operational management assessment, highlighted by adequate water supply from several different sources and capable management.

The rating also reflects our view of the district's strong financial risk profile, including:

- Strong all-in debt service coverage (DSC) that averaged 1.3x over the past three fiscal years;
- Very strong liquidity and reserves, reflecting the district's ability to meet operating expenses for about 300 days with unrestricted reserves in fiscal 2019, while recognizing the low nominal amount;

- Strong debt and liabilities profile, shown by a debt-to-capitalization ratio of about 48%; and
- Strong financial management assessment, represented by management's five-year capital improvement plan, while also recognizing the lack of a five-year financial forecast.

The stable outlook reflects our view of PWSD1's largely residential customer base and sufficient water supply to meet demand.

Environmental, social, and governance factors

From an environmental perspective, PWSD1 has sufficient water supply contracts to meet demand and the district has not had water quality or service problems in recent years. With regard to social factors, health and safety precautions that health officials enacted in response to COVID-19 have not materially affected water demand, and the unemployment rate in the service area remains below the state and national averages. However, we remain watchful of negative effects from economic headwinds, such as weaker rate affordability, particularly given the low incomes in the service area. For governance, the district has rate setting autonomy, enabling PWSD1 to change rates without state approval. However, rate changes from water suppliers would affect the district. We note that Missouri law requires voter approval for the district to issue additional revenue bonds.

Stable Outlook

Downside scenario

We are unlikely to lower the rating in the next two years because the enterprise and financial risk assessment scores are relatively strong for the rating. However, if both DSC and liquidity materially deteriorate, the rating could come under pressure.

Upside scenario

We could raise the rating in the next two years if the service area economy strengthened, although this seems unlikely given the challenging economic environment.

Credit Opinion

Enterprise Risk

In fiscal 2019, PWSD1 served 4,852 connections in Knox, Macon, Randolph, and Shelby counties, with more than half of the connections in Macon County. The number of connections has slowly grown in recent years. Residential customers make up 98% of accounts. Residential customers tend to have more stable demand than other customers. The top customer, Poet Biorefining-Macon, an ethanol facility, provided 16% of the district's fiscal 2019 revenue, which we would normally consider concentrated. However, we understand that PWSD1 receives a small margin from Poet, resulting in the customer providing about 6% of the district's net revenue and thus mitigating some of the risk. At the same time, we believe the ethanol industry is particularly susceptible to volatility; Poet Biorefining-Macon has operated at full capacity since the COVID-19 pandemic began. We see no customer concentration risk from the rest of

PWSD1's top 10 customers with none contributing more than 3% of revenue. Besides Poet Biorefining-Macon, the top 10 customers include several cities that the district serves on a wholesale basis, including Bevier, Clarence, Atlanta, and Callao.

The U.S. economy faces recessionary pressures, and S&P Global Economics forecasts that U.S. GDP will decline by 5% in 2020. (See "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020 on RatingsDirect.) In July 2020, Macon County's unemployment rate was 6.3%, below the state rate of 6.9% and the national rate of 10.2%. Moreover, PWSD1 reports that its water demand has not changed significantly over the past few months. The district had a moratorium on customer shutoffs for nonpayment for several months, but the moratorium ended in August 2020. Management reports that delinquencies are now at normal levels. Nevertheless, with median household EBI in Macon County at 68% of the national median, we believe that the district's customers face economic headwinds.

In fiscal 2019, PWSD1's average monthly residential water bill of 4,400 gallons cost about \$46, or 1.5% of median household EBI. We view the district's rates as largely affordable and as giving PWSD1 some rate raising flexibility, if needed. However, the recession will likely reduce incomes. The district most recently raised rates in 2015; it has no plans to raise rates in the next few years, although it reviews rates annually.

PWSD1 purchases water from the City of Macon, which typically provides about 85% of the district's supply, and the Clarence Cannon Wholesale Water Commission (CCWWC), which typically provides about 14% of the district's supply. The remainder of PWSD1's water supply comes from the Associated Electric Cooperative, the City of Bevier, and the Public Water Supply District No. 1 of Adair County. The district has sufficient supply to meet demand for the foreseeable future. PWSD1 has about one million gallons of storage, or a slightly less than one day of average demand.

PWSD1 does not produce five-year financial forecasts. We view this as a credit negative because these forecasts can provide guidance and identify problems. The district does produce a budget each year. PWSD1 submitted its five-year capital improvement plan to the Missouri Department of Natural Resources in 2019.

Financial Risk

PWSD1's all-in DSC was 1.25x in fiscal 2019, 1.43x in fiscal 2018, and 1.22x in fiscal 2017, for an average of 1.3x. Greater water sales resulted in stronger coverage in fiscal 2018. In fiscal 2020, using PWSD1's budget, we calculate all-in DSC of 1.22x. In calculating all-in DSC, we treat the base charge paid by the district to CCWWC as debtlike, rather than as an operating expense. The base charge paid to CCWWC does not vary based on water usage.

The district had unrestricted cash and investments of \$2 million at the end of fiscal 2019, providing PWSD1 with the ability to meet operating expenses for almost 300 days. Reserves and liquidity have slightly strengthened in each of the past three years. The district's liquidity provides substantial cushion to cover short-term revenue shortfalls or contingencies. However, reserves are nominally small.

PWSD1 had \$5.4 million of long-term debt outstanding at the end of fiscal 2019 and a debt-to-capitalization ratio of 48%. We view such a ratio as manageable for the district. The debt-to-capitalization ratio will not materially change

with the issuance of the series 2020 bonds because they are a refunding. PWSD1 has no plans to issue additional debt over the next five years. The district's five-year capital improvement plan calls for about \$2 million in capital spending.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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