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Ratings

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**Summary:**

# Northeast Public Sewer District, Missouri; Water/Sewer

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## Summary:

# Northeast Public Sewer District, Missouri; Water/Sewer

| Credit Profile | | |
|---|---|---|
| US$6.66 mil sewerage sys rfdg rev bnds ser 2020B due 01/01/2034 | | |
| *Long Term Rating* | A+/Stable | New |
| US$5.115 mil taxable sewerage sys rfdg rev bnds ser 2020A due 01/01/2025 | | |
| *Long Term Rating* | A+/Stable | New |
| Northeast Pub Swr Dist WTRSWR | | |
| *Long Term Rating* | A+/Stable | Affirmed |

## Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Northeast Public Sewer District (NPSD, or the district), Mo.'s series 2020A taxable sewerage system refunding revenue bonds and series 2020B sewerage system refunding revenue bonds. At the same time, S&P Global Ratings affirmed its 'A+' long-term rating on NPSD's series 2014 revenue bonds. Net revenue of the district secures the bonds. The outlook is stable.

Although our analysis indicates very strong enterprise and financial risk profiles, we have adjusted the 'AA-' indicated rating to 'A+' to reflect our view that the approximately $5 million of nominal liquidity that the issuer projects maintaining limits financial resilience if the utility faces operational difficulties or if recessionary pressures lead to delinquent customer payments.

NPSD will use the series 2020A and 2020B bond proceeds to refund all of the district's series 2012 bonds and a portion of the 2014 bonds. The district is not extending the maturity of the debt refunded. As of Dec. 31, 2019, the district had $13.9 million of debt outstanding.

### Credit overview

Located about 23 miles southwest of St. Louis, NPSD provides sewer service in northern Jefferson County. In fiscal 2019 the district had 12,597 customer accounts, and system use, based on total effluent flow, exceeded a billion gallons of water.

The rating reflects our view of a very strong enterprise risk profile, including:

- Very strong service area economic fundamentals, reflected by incomes in the service area slightly above the country's median household effective buying income (EBI) and the service area's location in the broad and diverse metropolitan St. Louis economy;
- Extremely strong industry risk relative to other industries and sectors as a monopolistic service provider of an essential public utility;

- Very strong market position, with the district's average monthly residential sewer bill of 4,000 gallons totaling about $43, or less than 1% of median household EBI; and
- Very strong operational management assessment, highlighted by sufficient wastewater treatment capacity and a management team that reviews rates annually.

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

- Extremely strong all-in debt service coverage (DSC) that averaged 2.02x over the past three fiscal years;
- Very strong liquidity and reserves, reflecting the district's ability to meet operating expenses for 669 days with unrestricted reserves in fiscal 2019, while recognizing the low nominal amount;
- Very strong debt and liabilities profile, shown by a debt-to-capitalization ratio of about 26% at the end of fiscal 2019, although we note that the district issued new money debt in fiscal 2020; and
- Very strong financial management assessment, represented by management's production of a five-year financial forecast and five-year capital improvement plan.

The stable outlook reflects our view of NPSD's sound service area economy, largely residential customer base, and sufficient wastewater treatment capacity to meet demand.

### Environmental, social, and governance factors

From an environmental perspective, NPSD has sufficient wastewater treatment capacity to meet demand and has not had material service interruptions since significant flooding in June 2017. The district's focus in recent years on reducing inflow and infiltration continues through an aggressive cleaning and inspection program. NPSD is in compliance with all environmental regulations. With regard to social factors, health and safety precautions that health officials enacted in response to COVID-19 have not materially affected wastewater demand. The unemployment rate in the service area remains near the state average and considerably below the national average. For governance, the district has rate setting autonomy, enabling NPSD to change rates without state approval. We note that Missouri law requires voter approval for the district to issue 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 actual financial results are materially worse than projections, the rating could come under pressure.

### Upside scenario

We could raise the rating in the next two years if nominal liquidity improves and the risk of delinquent payments diminishes.

## Credit Opinion

## Enterprise Risk

Established in 1979, NPSD served 12,597 connections in 2019. In the past five years, the number of connections has increased by about 1.2% annually on average. Residential customers make up 97% of accounts, 95% of revenue, and 90% of sales. Residential customers tend to have more stable demand than other customers. Customer concentration is not a risk for the district with the top customer providing 3% of revenue and the top 10 customers providing 17%. The top 10 customers consist exclusively of mobile home parks and apartment buildings. Incomes in the service area are 106% of the national median household EBI, and we view this as a credit positive.

The U.S. economy faces recessionary pressures, and S&P Global Economics forecasts that U.S. GDP will decline by 4% in 2020. (See "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020, on RatingsDirect.) In July 2020, Jefferson County's unemployment rate was 7.2%, above the state rate of 6.9% but below the national rate of 10.2%. NPSD reports that its wastewater 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 has ended. Delinquencies did not substantially increase during the moratorium and are now normal.

In fiscal 2019, NPSD's average monthly residential wastewater bill of approximately 4,000 gallons cost about $43, or less than 1% of median household EBI. We view the district's rates as affordable and as giving NPSD rate raising flexibility, if needed. NPSD has no plans to raise rates in the next few years, although it reviews rates annually.

NPSD operates four wastewater treatment plants with a combined capacity of 4.23 million gallons per day (mgd). Average daily flow in fiscal 2019 was 2.84 mgd, or about 67% of capacity. The largest plant is the Saline Creek Regional Wastewater Treatment Plant (Saline Creek) with a capacity of 4 mgd. Saline Creek is undergoing upgrades that will increase its capacity to 5.25 mgd. The district plans to remove the three small wastewater treatment plants over the next several years and will connect the areas served by these smaller plants with Saline Creek. We believe that the district has sufficient wastewater treatment to meet demand for the foreseeable future.

NPSD produces five-year financial forecasts and five-year capital improvement plans. We view these planning documents favorably because they can provide guidance and identify problems.

## Financial Risk

NPSD's all-in DSC was 2.16x in fiscal 2019, 1.93x in fiscal 2018, and 1.97x in fiscal 2017, for an average of 2.02x. We believe such coverage demonstrates the district's healthy cost recovery. Over the next three years, projections show all-in DSC ranging from 1.63x to 1.94x. The projections assume 2% annual growth in operating expenditures and no rate increases; in our view, the projections are conservative.

The district had unrestricted cash and investments of $6.2 million at the end of fiscal 2019, providing NPSD with the ability to meet operating expenses for 669 days. Reserves and liquidity have strengthened in each of the past three years. The district's liquidity provides substantial cushion to cover short-term revenue shortfalls or contingencies, although we view the nominal liquidity as low. NPSD plans to reduce its unrestricted cash and investments in the next three years, but we note that through 2023 the district intends to keep at least $4 million in reserves, equivalent to more than a year of operating expenses.

NPSD had $13.9 million of long-term debt outstanding at the end of fiscal 2019 and a debt-to-capitalization ratio of 26%. The district added $5 million in debt earlier this year through the State of Missouri's direct loan program. Including this debt, the district's ratio would be about 32%. We view such a ratio as manageable for the district. The ratio will not materially change with the issuance of the series 2020A and 2020B bonds because they are a refunding. The district's five-year capital improvement plan calls for about $10 million in capital spending over fiscal years 2021 through 2025. In 2023 NPSD plans to issue about $6 million in debt through a state revolving fund bond issue.