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Metropolitan St. Louis Sewer District, Missouri; Water/Sewer

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Credit Profile		
US$85. mil taxable wastewtr sys rev Build America bnds ser 2010B due 05/01/2039		
Long Term Rating	AA+/Stable	New
Metro St Louis Swr Dist wastewtr sys rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Metro St Louis Swr Dist wastewtr		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' long-term rating to Metropolitan St. Louis Sewer District (MSD or the district), Mo.'s taxable wastewater system revenue bonds, series 2010B. Standard & Poor's also affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the district's bonds outstanding. The outlook is stable.

The rating reflects our assessment of the district's:

- Strong and diverse service area economy covering the City of St. Louis and St. Louis County;
- Large, diversified customer base;
- Moderate rates not subject to outside regulation;
- Strong financial operations, with strong pro forma debt service coverage; and
- Strong management policies and planning capabilities.

MSD's rolling (2008-2012) capital improvement and replacement plan, which includes $660 million and additional needs beyond 2012, somewhat counterbalances these strengths, in our view. Of the total, $275 million will be funded from debt, including this issuance, which voters approved in the August 2008 referendum. The district plans to issue the remainder of the debt over the remainder of the capital plan.

MSD's net wastewater operating revenues, excluding property tax revenues and stormwater service charges, secure the bonds. The district will issue the bonds as federally taxable Build America Bonds, in which MSD will receive a 35% interest credits on the bonds. The district plans to reserve gross annual debt service and reimburse itself with the interest credit.

MSD provides wastewater treatment and storm water management to the city of St. Louis (issuer credit rating: A+/Stable) and most of St. Louis County (GO rating: AAA/Stable). The customer base is, in our opinion, large (472,393 accounts), stable, and diversified. Accounts in the county make up 65% of the total. The largest user, InBev (Anheuser-Busch InBev N.V./S.A.), in the City of St. Louis, accounted for only 3.1% of wastewater user charges in 2009. The next nine largest users made up another 2.7%.

Combined base charges and volume rates for metered residential customers remain moderate, in our view, at $29.50 per 1,000 cubic feet per month. In October 2007, the board approved rate increases for fiscals 2008-2012. We expect that, to allow the district to maintain its 1.25x rate covenant and provide for adequate capital funding from the budget, the board will approve another round of multiple-year rate increases.

We view MSD's financial operations as strong, reflecting large amounts of pay-as-you-go capital spending. Net income (excluding depreciation, property tax revenues, grant revenue, and stormwater service charges) for the fiscal year-end 2009 (June 30), totaled $81.3 million, providing strong 2.8x coverage of revenue bond and state revolving fund loan debt service, and 2.1x pro forma coverage of expected maximum annual debt service (MADS). Liquidity is, in our opinion, very strong for the ratings, with the district's liquidity position at nearly $290 million (660 days' unrestricted cash and investments at the end of fiscal 2009). MSD has had about $100 million in the past few years marked as designated in the restricted fund, but could be used for liquidity purposes. Management's liquidity target is to maintain at least 60 days' cash on hand. The district's debt to plant ratio has been low, at about 20% in the past few years.

Outlook

The stable outlook reflects Standard & Poor's expectation that MSD will adjust rates as necessary to maintain strong debt service coverage as it issues debt, as well as to generate adequate revenues to support its large capital program. The strength of the district's service area provides additional rating stability.

Operations And Governance

MSD serves 525 square miles of the St. Louis metropolitan area, which has a population of about 1.4 million. Within the service area are five separate subregions, distinguished by watershed. Each subregion contains at least one wastewater treatment plant. The district operates eight treatment facilities, which are designed with a combined secondary treatment capacity of 330 million gallons per day. With the Lower Meramec treatment plant's completion in December 2006, MSD will eventually close four of its facilities serving the southern part of its territory. The district operates about 9,650 miles of collection and trunk sewers, including 1,928 miles of combined sanitary and storm water sewers that are mostly located in St. Louis.

A six-member board of trustees governs MSD. St. Louis' mayor appoints three members, while the St. Louis County executive appoints the rest. The board appoints a 15-member rate commission made up of representatives from different local organizations to review and make recommendations regarding all proposed rate increases. The final decision rests with the board. The district bills its customers directly.

Capital Improvement Plan

MSD's capital program plan, formulated in 2004 for the next couple of decades, calls for $4 billion-$6 billion for various projects to allow the district to meet federal and state discharge requirements, as well as to renovate and rebuild infrastructure. Projects become part of MSD's rolling five-year capital improvement and replacement plan (CIRP) as the board approves. The district projects that it will spend $660 million on various projects during the most recent phase of the current CIRP (2008-2012). Of that total, it will spend $275 million in revenue-secured bonds through fiscal 2012. Federal grants and operating revenues will pay for the remaining cost of the initial projects. MSD recently used the initial $500 million in vote-approved debt to fund some of the long-term capital plan. Additional debt from future referenda may play an important part in financing the rest. After exhausting the 2008 referendum, the district expects to go back to the voters sometime before the beginning of 2013. Since 2004, it has completed projects totaling more than $1 billion. To pay for the upcoming capital needs, the board has approved rate increases of 2.4% in 2010, 4.7% in 2011, and 4.3% in 2012. District management expects to approach the rate commission sometime in 2011 for further increases.

Bond Provisions

We believe that bond provisions as set out in the master bond ordinance are satisfactory. The rate covenant requires MSD to set rates and charges to cover at least 100% of operating and maintenance expenses; 1.25x debt service on all senior-lien debt; and 1.15x on all bonds outstanding, including subordinate debt. The district may issue additional parity bonds upon either of the following:

- An independent certified public accountant's report stating that the historical net operating revenues and investment earnings for 12 consecutive months out of the previous 18 were at least equal to 125% of MADS on the outstanding and additional bonds; or
- A consultant's report stating that the forecast net operating revenues and investment earnings for the year in which the bonds are to be issued and the following two years are at least equal to 125% of MADS after the additional bonds.

The first part of the additional bonds test may adjust for pro forma rate increases imposed before the issuance of the additional bonds. The second may take into account future board-approved rate increases. A debt service reserve fund will be established at closing, equal to the least of 10% of bond principal, 125% average annual debt service, and MADS.

Related Research

USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008