

**FITCH RATES METRO ST LOUIS SEWER DISTRICT,  
MISSOURI \$85MM WASTEWATER REVS 'AA+'; OUTLOOK  
STABLE**

Fitch Ratings-Austin-06 January 2010: Fitch Ratings takes the following actions on Metropolitan St. Louis Sewer District, Missouri (the district):

- \$85 million taxable wastewater system revenue bonds (Build America Bonds - Direct Pay), series 2010B, rated 'AA+';
- Approximately \$259 million of parity wastewater system revenue bonds, affirmed at 'AA+'.

The 2010B bonds are scheduled to sell via negotiation the week of Jan. 11, with proceeds to be used to finance improvements to the district's wastewater system (the system), fund a debt service reserve, and pay costs of issuance. The Rating Outlook is Stable.

**RATING RATIONALE:**

- Operating performance has been solid, consistently generating high annual debt service (ADS) coverage and reserves.
- Leverage ratios are low to moderate due to the level of historical equity funding and should remain within this range despite the large capital improvement and replacement program (CIRP).
- User rates are competitive with other large systems and preserve sufficient rate flexibility.
- Additional borrowing needed to complete the CIRP will require voter authorization beyond the amount currently authorized.
- The service area is stable and diverse.

**KEY RATING DRIVERS:**

- Depending on the status of current regulatory negotiations, the CIRP could be compressed and lead to higher leverage ratios and reduced ADS coverage.
- If the CIRP program is changed or accelerated, ratepayer affordability could be pressured.

**SECURITY:**

The bonds are senior lien obligations, secured by a pledge of net wastewater system revenues.

**CREDIT SUMMARY:**

Financial performance is well above average, reflecting the district's prudent planning efforts and conservative management. For fiscal 2009 total ADS coverage (including senior and subordinate lien debt) was a solid 3.1 times (x) and the forecast through fiscal 2012 indicates similar results, despite additional planned borrowings. Reserve levels are also healthy. For fiscal 2009 the system maintained almost 790 days cash and 750 days of working capital. Reserves should remain well above average over the next several years even with planned equity contributions for capital.

The fiscal 2010-2012 capital program, which is a component of the CIRP, totals \$446 million. Like many older urban utilities, the system periodically experiences sanitary sewer overflows and combined sewer overflows during wet weather events. Over the last few years capital costs have largely focused on increasing capacity at the district's wastewater treatment plants sufficient to handle periods of heavy volume. With these projects nearing completion, capital costs will be transitioning largely to rehabilitation and replacement of the collector system. The district currently is in negotiations with regulators regarding alleged discharge violations and it is unclear when a settlement will be reached and what, if any, impact such a settlement will have on the district's capital program. In the absence of any required change of direction resulting from a possible

settlement, the district continues to make large and steady annual investment in system infrastructure in accordance with the CIRP.

Funding for the CIRP through fiscal 2012 is expected to be derived from a roughly even balance between debt and equity sources, consistent with the district's goal of providing at least 50% capital funding from equity. As a result of this practice, leverage ratios remain consistent with similarly rated credits and are expected to continue to do so over the next several years despite the moderately high level of annual capital costs. While bonding capacity is limited by voter approval, the board maintains strong voter confidence as is evident by the 76% approval rate with the latest \$275 million authorization in August 2008. Upon issuance of the current offering, the district will have \$129 million of authorization remaining. The district anticipates seeking voter approval for additional authorization in the 2012 timeframe.

Serving around 1.4 million persons, the district was established in 1954 to provide wastewater treatment and stormwater services to both the City of St. Louis and the vast majority of St. Louis County. The customer base is stable, with accounts experiencing modest growth over the last five fiscal years. User charges border on the high side for city residents but are only moderate for non-city residents. Charges, however, remain below that of comparably sized systems nationwide.

These rating actions reflect the application of Fitch's current criteria which are available at '[www.fitchratings.com](http://www.fitchratings.com)' and specifically include the following reports:

'Revenue-Supported Rating Criteria,' dated Dec. 29, 2009;  
'Water and Sewer Revenue Bond Rating Guidelines,' dated Aug. 6, 2008.

#### Considerations for Taxable/Build America Bonds Investors

The following sector credit profile is provided as background for investors new to the municipal market.

#### Water and Sewer Utility Revenue Bonds:

Municipal water and sewer utilities in the U.S. are enduring natural monopolies that typically have autonomous rate setting ability and provide highly essential services. The bonds are secured by a pledge of net revenues generated by the water and/or sewer system; and typically include structural legal protections such as rate covenants, debt service reserve requirements, and anti-dilution tests. As such, the sector exhibits extremely strong credit characteristics with minimal defaults. Reflective of this strong performance, the average water and sewer revenue bond rating is 'A+' with 53% at or above 'AA-' and approximately 6% rated 'BBB+' or below. Those with low investment-grade or below-investment-grade ratings generally have substantial capital programs, a high degree of leverage or weak financial flexibility as reflected in low cash levels, narrow debt service coverage and/or limited rate-raising flexibility.

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Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

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