

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to Metropolitan St. Louis Sewer District, MO's \$261M Wastewater Rev. Bonds, Series 2017A

Global Credit Research - 17 Nov 2017

New York, November 17, 2017 -- Issue: Wastewater System Improvement and Refunding Revenue Bonds, Series 2017A; Rating: Aa1; Rating Type: Underlying LT; Sale Amount: \$261,175,000; Expected Sale Date: 12/05/2017; Rating Description: Revenue: Government Enterprise;

Summary Rating Rationale

Moody's Investors Service assigned a Aa1 rating to Metropolitan St. Louis Sewer District, MO's \$261 million Wastewater System Improvement and Refunding Revenue Bonds, Series 2017A. Moody's maintains the Aa1 rating on the district's outstanding parity debt. The ratings also take into consideration \$356 million in outstanding subordinate lien state revolving fund bonds that are not rated by Moody's. The outlook is stable.

The Aa1 rating reflects the district's stable financial performance, the result of annual rate increases, prudent management practices and conservative budgeting. The rating also reflects management's ability to successfully manage through the initial stages of a \$4.7 billion (in 2010 dollars) consent decree. The decree primarily requires the significant reduction of combined and sanitary sewer overflows. The rating is also based on the district's large and diverse service area that encompasses the City of St. Louis (A3 negative) and St. Louis County (Aaa stable), an increasing debt profile with sound debt service coverage, and satisfactory legal covenants and no debt service reserve with the current issuance.

Rating Outlook

The stable outlook reflects the district's large service area encompassing the St. Louis metro area, and continued strong financial performance due in large part to multiyear adopted annual rate increases and prudent management practices.

Factors that Could Lead to an Upgrade

- Strong management of the significant consent decree driven capital program
- Rate management to incorporate capital needs while maintaining healthy debt service coverage
- Trend of strong balance sheet performance and improvement of liquidity

Factors that Could Lead to a Downgrade

- Narrowed liquidity or debt service coverage
- Inability to successfully manage consent decree
- Significant decline in system demand

Legal Security

The legal provisions outlined in the master and supplemental bond ordinances provide satisfactory security for bondholders. Debt service on the current bonds is secured by a senior lien on the net revenues of the wastewater system and is on parity with the district's previously issued senior lien wastewater revenue bonds. Pledged revenues explicitly exclude storm water system revenues. The rate covenant calls for net revenues to provide at least 1.25 times annual debt service coverage on all senior lien bonds and 1.15 times debt service coverage on all debt, including subordinate lien debt which consists of state revolving fund loans.

An additional bonds test calls for net revenues to equal 1.25 times MADS on all senior lien debt and 1.15 times MADS on all debt for either 12 consecutive months during the most recent 18 month period or in the financial forecasts for the next three fiscal years. Series 2015B, 2016C and 2017A Bonds do not have a debt service reserve. The debt service reserve requirement on other issued parity senior lien bonds is the lesser of

10% of the principal on the senior lien bonds; MADS on senior lien debt; or 1.25 times average annual debt service on senior lien debt. The debt service reserve is cash funded and totaled \$49.4 million as of fiscal 2017.

Use of Proceeds

Proceeds from the Series 2017A Bonds will be used to complete upgrade and rehabilitation projects throughout the district which are in line with the district's long-term capital improvement plan and consent decree and partially refund Series 2011B, 2012A and 2013B for economic savings.

Obligor Profile

The district owns and operates the system, which consists of sanitary, stormwater and combined collection sewers, pumping stations, and wastewater treatment facilities. The service area includes 525 square miles, the City of St. Louis, and 90% of St. Louis County. The district encompasses five watershed areas and serves a population of roughly 1.3 million.

Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in October 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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