

Summary:

Liberty, Missouri; Water/Sewer

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Summary:

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Credit Profile

US\$4.31 mil wtrwks rfdg rev bnds ser 2011 due 10/01/2021

Long Term Rating

A/Stable

New

Rationale

Standard & Poor's Rating Services assigned its 'A' rating to Liberty, Mo.'s 2011 Waterworks Refunding bonds. The outlook is stable.

The rating reflects our view of the following factors:

- Participation in the Kansas City, Mo. economic base;
- Adequate liquidity position with an improved annual debt service following recent rate increases; and
- Limited capital needs.

In our view, the utility's receipt of transfers from outside funds to support operations and capital needs in recent years offsets these strengths somewhat.

Bond proceeds will refund the utility's 2002 and 2005 issues, mostly for interest cost savings but also to extend the maturity on the 2002 bonds to 2021 from 2016. The city will maintain a debt service reserve at the standard three-prong test.

Liberty is a mostly residential community, with a population of approximately 30,000, 15 miles north of Kansas City, Mo. (general obligation rating: AA/Stable). The city's water system provides service to nearly 10,200 customers, of which 92% are residential. From 2007-2010, the system's customer base increased about 1%. System concentration is diverse, in our view, with the 10 largest customers making up 17% of total use. Liberty treats and distributes its water. The system typically treats 3.5 millions of gallons per day (MGD) with a capacity of 12.0 MGD. Water sold to water pumped had been about 80% in the past few years. However, unaccounted water loss has been about 10%-15%, with 5% being used for internal use.

The city maintains rate setting ability with the city raising rates in 2009 (5%), 2010 (12.5%), and 2011 (4.5%). Current rates for a monthly residential bill are \$39.57 per 8,000 gallons. Including waste water rates, total rates are near \$100 per 8,000 gallons. Liberty is seeking not to exceed a 4% increase for 2012.

The water utility's financial position is adequate in our view. Historically, annual debt service coverage was at 0.84x in fiscal 2008 (year ended Dec. 31) and 0.95x in fiscal 2009, but improved to 1.43x in fiscal 2010. In fiscal years 2008 and 2009, Liberty used liquidity from the water fund in fiscal 2008 and a transfer in from the general fund in fiscal 2009 to make at least 1x annual debt service coverage on the utility's debt outstanding. With the rate increase in fiscal 2010, the water utility's annual debt service coverage improved to 1.43x. For fiscal 2011, the city is budgeting for annual debt service coverage of 1.24x, with the rate increase helping to lift net revenues. For fiscal 2012, while not completed, Liberty is budgeting for a similar coverage level. The rate covenant on the water bonds

is set at 1.1x annual debt service. The flow of funds is open.

Liquidity during the past few years has been what we consider adequate. Increasing each year from fiscal years 2008-2010, the city showed unrestricted days cash and investment levels at 73 in fiscal 2010. Liberty is budgeting for a slight increase in fiscal 2011 in liquidity. The city maintains a 45-day cash and investment target.

Liberty does not expect to issue additional debt in the near term for the water utility. It had spent \$540,000 for capital needs in the water system in fiscal 2011. City officials intend to transfer some monies from the capital sales tax fund to finance some capital needs for the water system. Debt-to-plant ratios have been low, in our opinion, with fiscal 2010 levels at 18%.

Liberty benefits from its participation in the Kansas City economic base, providing for sizable employment opportunities for residents. The city's own employment base includes Liberty Hospital (1,880), Liberty School District (1,289), Hallmark Cards Inc. (901), and the county (506). Income levels for Liberty have historically been strong, in our view, with 2010 median household effective buying income levels at 128% of state and 116% of national level. Unemployment levels in the city averaged 7.6% in 2010 and were at 6.4% in October 2011.

Outlook

The stable outlook reflects our expectation that Liberty's financial position will remain stable while making timely rate increases. The outlook also reflects our expectation that the city will be able to address capital needs while reducing its reliance on outside funds to finance these. The rating could face stress if its financial position, in terms of debt service coverage and liquidity, were to resume a pattern of fiscal deterioration. We believe upward rating mobility is limited during our outlook period.

Related Criteria And Research

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

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