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Summary:

Beloit, Wisconsin; Water/Sewer

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Credit Profile

Beloit storm swr sys rev bnds ser 2010

Long Term Rating

A+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'A+' rating, with a stable outlook, on Beloit, Wis.'s stormwater system revenue bonds, series 2010.

The rating reflects Standard & Poor's view of the following credit characteristics:

- Role as regional economic center for southern Wisconsin with a diverse customer base;
- Good overall financial position; and
- Low debt to plant ratios with minimal capital needs.

Comparatively high unemployment rates and below-average, but still-adequate, income levels are somewhat offsetting factors.

The bonds are secured by the city's pledge of net revenues of the storm sewer system, which the city established in 2007.

The City of Beloit is located in south-central Wisconsin, along the Illinois-Wisconsin border in Rock County and has an estimated population of 36,850. The local economy is centered on manufacturing and food processing, and residents have additional employment opportunities in the Rockford and Janesville areas, both approximately 15 miles from Beloit. Major employers in the city include Beloit Memorial Hospital (1,002), School District of Beloit (881), Frito-Lay (701), and City of Beloit (465). Beloit's unemployment rate has historically been higher than state and national levels. The unemployment rate as of September 2012 is 9.9%, compared with state's 6.2% and nation's 7.6%. Income levels are adequate, but below average, with median household and per capita effective buying income (EBI) at 77% and 69%, respectively.

The system provides for the collection and disposal of storm sewerage to all properties within the city, serving in total 13,656 single-family units (SFUs). The customer base has been relatively stable with the leading nine customers accounting for a very diverse 12.2% of total storm sewer revenues. The city maintains full control of the system user fees, and has raised fees three times since the utility's creation. Currently the system charges \$3/month for a SFU and bills its commercial and industrial properties in SFU equivalents based on the amount of the property's impervious surface area. Monthly combined water, stormwater, and sewer rates, including flat fees, are, in our view, moderate at \$60.60 per 1,000 cubic feet, or 2.3% of median household EBI. Beloit reviews the rates annually. At this time, the city does not have plans to raise its stormwater rates.

In our opinion, the stormwater utility's financial position has been strong. Between fiscals 2010 and 2012, year ended Dec. 31 (unaudited), annual debt service coverage ranged from 2.58x-5.16x. It decreased to 3x in fiscal 2012 from 5.16x in fiscal 2010, due to Beloit beginning to repay the debt from the 2012 bonds. The city is budgeting for annual debt service coverage in fiscal 2013 to be strong. Liquidity levels have been strong, in terms of unrestricted days' cash. In fiscal 2011, unrestricted cash was at \$394,000 or 226 days' unrestricted cash. This increased from 2010 levels of \$24,000, or 12 days, due to timing issues. The city collects all utilities on the same monthly bill. It does not have estimated 2012 levels but does expect to have at least strong levels in fiscal 2013.

The system's capital needs are minimal, with the city's capital improvement program including only \$417,000 of spending for 2013-2018. Beloit plans to fund these with internal sources. As a result, it does not have any additional debt plans for the stormwater system. Debt to plant ratios have remained low at 13.9% with \$1.4 million of debt outstanding.

Bond provisions are adequate. The city pledged to maintain rates and charges sufficient to maintain at least 1.25x coverage of annual debt service. Additional parity debt may be issued upon the establishment of either 1.25x existing coverage of future average annual debt service from the net revenues generated in the year preceding the issuance of the bonds or 1.25x pro forma coverage of future maximum annual debt service (MADS) in each of the three years following the bonds' issuance. A debt service reserve will be funded at closing from bond proceeds, and will be maintained at the lesser of 10% of bond principal, MADS, or 125% of average annual debt service. The flow of funds is open after debt service and the reserve requirement are covered.

Outlook

The stable outlook reflects our expectation that Beloit will continue to maintain at least its strong financial position in respect to its budgetary needs. During the current two-year outlook, we view rating movement to be minimal, if current credit factors remain stable.

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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