

# RatingsDirect®

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## Summary:

# Beloit, Wisconsin; Water/Sewer

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

# Beloit, Wisconsin; Water/Sewer

### Credit Profile

US\$6.045 mil wtr sys rev rfdg bnds ser 2013B dtd 02/13/2013 due 11/01/2019

*Long Term Rating*

A/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'A' rating, with a stable outlook, to Beloit, Wis.' 2013B water system revenue bonds and affirmed its 'A' rating on the city's water-revenue secured debt, reflecting our assessment of the city's:

- Role as regional economic center for southern Wisconsin with a diverse customer base;
- Ample treatment capacity; and
- Good overall financial position, despite recent decrease in liquidity levels but still strong annual debt service coverage.

Somewhat offsetting these ratings strengths, in our view, are Beloit's comparatively high unemployment rates and high debt to plant ratios even with no additional debt plans to accommodate planned capital spending.

The city's net pledge of water revenues secures the bonds. Bond proceeds will refund the series 2003 bonds for interest cost savings. The city will maintain a debt service reserve at the standard three-prong test.

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 the state's 6.2% and nation's 7.6%.

Beloit's water system supplies well water to more than 15,300 retail customers in the city of Beloit and surrounding communities. The system also provides water to a wholesale customer that serves the city of South Beloit, Ill. The customer base is primarily residential at 90% of the customers. The system's customer base, in our view, is very diverse in terms of percent of total billings with the 10 leading customers accounting for 10% of total revenues. Hormel Foods is the largest customer at 3.5% of total revenues. Income levels are adequate, but below average, with median household and per capita effective buying income (EBI) at 77% and 69%, respectively.

The system has seven active wells with a capacity of 29 million gallons per day (mgd), three pumping stations, three storage tanks with a total capacity of 2.75 million gallons, and about 200 miles of mains. There is no treatment plant; chlorine and fluoride are added at the wellhead. The system has a large amount of surplus capacity, with 2011 average and peak daily demand amounting to only 5.5 mgd and 8.6 mgd.

The city last raised its water rates in December 2010. Water rates are currently \$21.30 per 1,000 cubic feet, including a \$6.80 monthly fixed charge. Stormwater rates and sewer rates add \$39.30 per 1,000 cubic feet to the bill, bringing the total bill to \$60.60, or 2.3% of median household EBI. The city reviews water rates, which are subject to regulation by the state's Public Service Commission annually. The city may raise rates in the near term but no definitive plans at this time.

Beloit's financial position has been good, in our view. Annual debt service coverage ranged from 1.35x to 1.63x, increasing annually, between fiscals 2009 and 2012, year ended Dec. 31 (unaudited). Pro forma coverage of maximum annual debt service (MADS), using fiscal 2012 net revenues, is at 1.64x. Liquidity levels have been strong over the past few years, although declining between fiscals 2009-2011. Liquidity in fiscal 2011 was at \$900,000 or 180 days' unrestricted cash, down from \$1.6 million or 260 days in fiscal 2010. The city cited its liquidity decline mainly for capital expenditures. For fiscal 2013, Beloit is budgeting for a slight increase in unrestricted cash while it is calculating its cash levels for fiscal 2012. The city does not maintain a formal liquidity policy but targets to maintain reserves to cover at least three months' expenditures.

The system's capital needs are modest, with the city's capital improvement program including \$4.1 million of spending between fiscals 2013-2018. Beloit will use internal sources without issuing additional debt to finance these needs. Debt to plant ratios have been high, with fiscal 2011 levels at 76% with nearly \$27 million of debt outstanding.

Bond provisions are adequate, with the city pledged to maintain rates and charges sufficient to maintain at least 1.25x coverage of annual debt service. Additional parity debt may only be issued if net revenues in the year preceding issuance provide 1.25x coverage of both existing and proposed future MADS. 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 show at least good coverage of annual debt service and liquidity levels, given it plans to pay with capital needs with internal funding and is still encountering a high area unemployment rate. During the two-year current outlook period, we view downward pressure to be minimal. Upward rating movement could result if the city is able to demonstrate at least stable or improving liquidity during the current outlook period with other credit factors holding 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

### Ratings Detail (As Of January 18, 2013)

Beloit wtr

*Long Term Rating*

A/Stable

Affirmed

**Ratings Detail (As Of January 18, 2013) (cont.)**

**Beloit wtr**

*Unenhanced Rating*

A(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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