

RatingsDirect®

Summary:

Beloit, Wisconsin; Water/Sewer

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Summary:

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Credit Profile

US\$1.265 mil storm swr sys rev rfdg bnds ser 2015A dtd 03/04/2015 due 05/01/2030

Long Term Rating A+/Stable New

Beloit storm swr sys rev bnds ser 2010

Long Term Rating A+/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to Beloit, Wis.' series 2015A storm sewer system refunding bonds and affirmed its 'A+' rating on the city's outstanding 2010 storm water system revenue-secured bonds. The outlook on all the ratings is stable.

The proceeds of the 2015A bonds will be used to refund the outstanding 2010 bonds, whose rating will be withdrawn once all the 2010 bonds are refunded and paid in full.

The rating reflects our opinion of the city's:

- Role as a regional economic center for southern Wisconsin with a diverse customer base,
- At least adequate financial performance; and
- Low debt-to-plant ratios with minimal capital needs.

We believe what we consider comparatively high unemployment and below-average, but still-adequate, incomes somewhat offset these factors.

Net revenues of the storm water utility secure payment on the bonds. We consider the other credit-relevant bond provisions adequate, and include the following:

- A pledge to maintain sufficient rates and charges to maintain at least 1.25x annual debt service coverage (DSC).
- The city could issue additional parity debt with the establishment of either 1.25x existing coverage of future average annual debt service from net revenue generated in the year preceding the issuance of the bonds or 1.25x pro forma future maximum annual debt service (MADS) in each of the three years following the bonds' issuance.
- Beloit will fund a debt service reserve with bond proceeds at closing; it will maintain the fund at the least of 10% of bond principal, MADS, or 125% of average annual debt service.

Beloit, with a population estimate of 37,000, is in south-central Wisconsin, along the Illinois border in Rock County.

The local economy centers on manufacturing and food processing; residents have additional jobs in the Rockford, Ill. and Janesville, Wis. areas, both approximately 15 miles away. Leading city employers include:

- Beloit Health System (1,550 employees),
- Beloit School District (1,006),
- Taylor Co. (750),

- Birds Eye (726), and
- Kerry Americas (690).

Unemployment has historically been higher than state and national rates. It averaged 11.1% in 2013, but fell to 7.3% in November 2014. Income is, in our opinion, adequate, but below average, with median household and per capita effective buying incomes (EBIs) at 74% and 64%, respectively.

The system provides for the collection and disposal of storm sewerage to all properties in the city, serving 13,634 single-family units (SFUs). The customer base has been relatively stable with the 10 leading customers accounting for a very diverse 17% of storm sewer revenue; the city, the leading customer, accounts for 4%. Beloit maintains full control of system user fees, and it has raised fees three times since the utility's creation. The system currently charges \$3 monthly for a SFU, and it bills commercial and industrial properties in SFU equivalents based on the amount of the property's impervious surface area. Monthly combined water; storm water; and sewer rates, including flat fees, are, in our view, affordable at \$64.98 per 1,000 cubic feet, or 2.6% of median household EBI. Beloit reviews the rates annually and does not currently plan to raise them. It collects all utilities on the same monthly bill.

In our opinion, the storm water utility's finances have been strong. Between audited fiscal year-ends Dec. 31, 2011, and 2013, annual DSC ranged from 2.3x-3.0x (when including nonoperating interest earnings and interest subsidies). When factoring in general obligation (GO) debt service paid out of the storm water fund, we consider DSC, which had been 1.15x in 2013, more adequate. The city does not expect to post actual financial results for 2014 or 2015 that would be significantly different from historical trends.

Liquidity has been what we view as strong in terms of unrestricted days' cash on hand, although the low nominal balance somewhat tempers our view. In fiscal 2013, unrestricted cash was \$570,000, or 297 days' unrestricted cash on hand.

The system's capital needs are minimal. Beloit's storm water capital improvement program includes just \$68,000 of spending for 2014-2019. Also, Beloit does not have any additional debt plans for the storm water system. Debt-to-plant ratios have remained, in our view, a low 25% with \$1.3 million of debt outstanding.

Outlook

The stable outlook reflects Standard & Poor's expectation that Beloit's storm water utility will continue to operate in a fashion consistent with historical trends, given the stable customer base and the city's ability to raise rates as needed. Barring any unforeseen significant increase in DSC or liquidity, we do not expect the rating to go up within the two-year outlook horizon, nor do we foresee any downward pressure on the rating, absent the occurrence of a significantly negative credit trend like financial deterioration or a weakening economic profile.

Related Criteria And Research

Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014
- U.S. Municipal Water And Sewer Utilities 2014 Sector Outlook: Learning To Do More With Less, Jan. 9, 2014
- 2014 Review Of U.S. Municipal Water And Sewer Ratings: How They Correlate With Key Economic And Financial Ratios, May 12, 2014

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