

# RatingsDirect®

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## Summary:

# Olathe, Kansas; Water/Sewer

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## Summary:

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### Credit Profile

US\$19.7 mil wtr and swr sys rev bnds ser 2015 dtd 10/01/2015 due 07/01/2035

*Long Term Rating* AA/Stable New

Olathe WS

*Long Term Rating* AA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Olathe, Kan.'s series 2015 water and sewer system revenue bonds and affirmed the 'AA' long-term rating on the system's bonds outstanding. The bonds are secured by a senior-lien pledge on water and sewer system net revenues. The outlook is stable.

The rating is based on our assessment of the system's:

- Diverse service area economy with very strong income levels,
- Sufficient supply and treatment capacity,
- Competitive and affordable rates compared with other cities in the area,
- Very strong liquidity with improving coverage levels, and
- Moderate capital program that uses both debt and equity.

Officials plan to use the series 2015 bond proceeds to finance the construction, reconstruction, improvements, extension, or enlargement of the water and sewer system.

Located 20 miles southwest of Kansas City, Mo., Olathe has grown as the metropolitan area expanded westward. The city, which is Johnson County's seat, saw its population increase about 50% during the 1990s to 92,962 as of the 2000 U.S. Census. Growth slowed to a rate we consider more manageable; as of the 2010 U.S. Census, the population had increased 35% over 10 years to 132,948. The city's unemployment remained below state and national averages at about 3.6%. Median household income is 137.5% of the national level, which we consider very strong.

Olathe operates one primary water treatment facility with adequate treatment capacity and independent supply sources. Total actual water treatment capacity is 36 million gallons per day (mgd) after an expansion in 2007. In 2014, average daily flow was 12.14 mgd, and peak flow was about 24.12 mgd. The city operates two wastewater facilities with a combined capacity of 10.95 mgd, which treats about half of the city's wastewater demand. The other half is treated by Johnson County Wastewater District although this is collected through the Olathe system. Average annual wastewater demand totaled 5.11 mgd in 2014. Future projects will focus on transmission and other additional infrastructure improvements, which are mainly growth-dependent.

The customer base is stable, primarily residential, and very diverse. During the past five years, the number of water and sewer connections grew less than 1% to 35,090 for water and 29,303 for sewer in fiscal year 2014. Residential

customers make up about 94% of the system's connections. The customer base is very diverse, in our opinion, with the 10 leading water customers accounting for less than 9% of total water system revenues and the 10 leading sewer customers accounting for less than 4% of sewer system revenues.

Given residential customers' wealth levels, the 2014 combined rates are affordable at approximately \$89.05 for 8,000 gallons of residential usage monthly. Officials have authorized 6.2% water and 6.9% wastewater rate adjustments effective January 2016 for fiscal 2016 and fiscal 2017. The upcoming rate increases are to support this debt issuance and future debt issuances planned in 2016 and 2017 for their capital needs.

In recent years, combined parity and subordinate debt service coverage has fluctuated. Currently in fiscal 2014, total debt service coverage was 1.41x, which we consider good, although it fell from more than 1.50x from 2010 to 2013. Senior lien debt service coverage remains strong at 2.91x. Operating revenues have remained flat over the past three years; however, the city anticipates they will rise with the recent rate increases and consistent growth in the area.

All previous and future state revolving loans are considered subordinate to the city's rated revenue bonds. With this issuance, there will be about \$75.7 million of water and sewer system revenue bonds outstanding, with an additional \$20.2 million of state revolving fund debt. In addition, there are \$14.7 million of series 220 general obligation refunding bonds outstanding that management intends to service with net system revenues although they are not specifically pledged to these bonds. In fiscal 2014, the total debt service due on all system obligations totaled \$10.2 million.

The city has maintained a strong liquidity position, in our opinion, and we anticipate that it will continue this practice. Liquidity levels have remained flat, at \$30.6 million, a very strong 488 days' unrestricted cash in the city's most recent audited fiscal year (2014, Dec. 31 fiscal year-end). Olathe currently has \$25.8 million in unrestricted cash.

## Outlook

The stable outlook reflects our expectation that Olathe will continue to maintain its good financial performance, including its strong liquidity position, and will make the necessary capital investments to expand the system and meet growing demand. In addition, the city's continued willingness to implement rate adjustments to offset additional debt remains a credit strength. We do not anticipate adjusting the rating within the two-year outlook horizon; however, if financial performance were to deteriorate for some reason, the rating or outlook could be pressured downward. Rating upside potential is currently limited due to the city's ongoing capital and debt needs.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- 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: Water And Sewer Ratings, June 25, 2007

### Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 22, 2015
- 2014 Review Of U.S. Municipal Water And Sewer Ratings: How They Correlate With Key Economic And Financial Ratios, May 12, 2014
- U.S. Municipal Water And Sewer Utilities 2014 Sector Outlook: Learning To Do More With Less, Jan. 9, 2014

### Ratings Detail (As Of September 9, 2015)

Olathe WS

*Long Term Rating*

AA/Stable

Affirmed

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