

Rating Action: Moody's assigns Aa3 to Topeka Combined Utility Enterprise, KS's Rev. Bonds, Ser. 2021-A; outlook stable

02 Aug 2021

Assigns initial A1 to Junior Lien Rev. Bonds, Ser. 2021-B

New York, August 02, 2021 -- Moody's Investors Service ("Moody's") has assigned a Aa3 rating to the City of Topeka, KS' \$70.6 million Combined Utility Refunding and Improvement Revenue Bonds, Series 2021-A and an initial A1 rating to the \$15 million Taxable Combined Utility Junior Lien Revenue Bonds, Series 2021-B. Concurrently, Moody's has affirmed the Aa3 rating on the outstanding combined utility revenue debt that is on parity with the Series 2021-A bonds (the "parity bonds"). Post-sale, the total amount of outstanding parity combined utility revenue debt will total \$301.4 million and the total amount of outstanding junior lien combined utility revenue debt will total \$15 million. The outlook is stable.

RATINGS RATIONALE

The Aa3 rating incorporates the system's large and stable service area, very strong liquidity, and planned rate increases to support new debt from the capital improvement plan. The rating also considers the narrowing but satisfactory debt service coverage, an elevated debt burden relative to peers that will remain because of a robust capital plan, and the system's affordable unfunded pension liability. Further, the rating incorporates the satisfactory bond covenants that include a debt service reserve fund funded at the standard 3-prong test and a 1.25x rate covenant and additional bonds test.

The A1 rating assigned to the junior lien bonds is one notch below the parity bonds' rating because of the subordinate nature of the debt as well as the weaker bond covenants that include a 1.05x rate covenant and additional bonds test. The junior lien bonds have a debt service reserve fund funded at the standard 3-prong test.

RATING OUTLOOK

The stable outlook reflects the expectation that the system's credit fundamentals will remain stable over the near term despite debt issuance plans. The rating also incorporates conservative fiscal management and a demonstrated willingness to increase rates to support growing debt service.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained and material increase in debt service coverage
- Significant moderation of debt burden

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of declining debt service coverage
- Decreased available liquidity
- Material increase in leverage

LEGAL SECURITY

The Series 2021-A bonds are supported by a pledge of net revenue of the combined utility system. The Series 2021-A, as well as the outstanding parity bonds, are subordinate to the system's outstanding state revolving fund loans, which are payable as expenses of the system.

The Series 2021-B bonds are supported by a pledge of net revenue of the combined utility system. The Series 2021-B bonds are junior and subordinate to (i) the system's outstanding state revolving fund loans and (ii) the system's outstanding parity bonds, including the Series 2021-A bonds.

USE OF PROCEEDS

The Series 2021-A bonds will finance system improvements, retire a portion of the Series 2020-A Temporary Notes, refund a portion of the outstanding Series 2013-A bonds, refund all outstanding SRF loans, and fund a debt service reserve fund.

The Series 2021-B bonds will retire the Series 2020-B Temporary Notes that were issued for biogas sewer system improvements.

PROFILE

The combined utility system provides potable water service to the City of Topeka (Aa3) and surrounding areas, including six rural water districts and the airport. The combined utility system also provides wastewater and stormwater services to a population of about 155,000.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt published in October 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1095545. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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