Moody's Investors Service

Rating Action: Moody's assigns Aa2 to the City of Spokane Water and Sewer, WA revenue bonds

Global Credit Research - 03 Nov 2014

$200.0 million in total debt affected

New York, November 03, 2014 --

Moody's Rating

Issue: Water and Wastewater System Revenue Bonds, 2014 (Green Bonds); Rating: Aa2; Sale Amount: $200,000,000; Expected Sale Date: 11-05-2014; Rating Description: Revenue: Government Enterprise Opinion

Moody's Investors Service has assigned an initial Aa2 rating to the City of Spokane's, (WA) $200.0 million Water and Wastewater System Revenue bonds, 2014. There is no outstanding parity debt of the system. The bonds are secured by the net revenues of the water, wastewater, and storm water system, as well as any Utility Local Improvement District (ULID) assessments. Proceeds of the series 2014 bonds will fund various projects and improvements to the system to improve the health of the Spokane River, and protecting the region's sole-source aquifer. Project plans include managing CSO flows, and adding tertiary treatment at the sole wastewater treatment plant.

SUMMARY RATING RATIONALE

The Aa2 rating reflects solid liquidity and debt service coverage levels, adequate water supply and treatment capacity for the stable and predominantly residential customer base, and a manageable multi-year capital improvement plan with limited future borrowing planned. The rating also incorporates adequate legal provisions, including a 1.25 times rate covenant and additional bonds test, and a springing debt service reserve fund.

STRENGTHS

-Competitive water and wastewater residential bills, supportive and stable ratepayer base

-Solid actual and projected debt service coverage, and strong available liquidity

-Excellent rate-setting practices and robust capital planning; sufficient treatment capacity and limited borrowing plans

CHALLENGES

-Adequate legal provisions with 1.25 times coverage requirement, and springing debt service reserve fund

-Below average resident wealth levels within the city

WHAT COULD CHANGE THE RATING UP:

-Significant growth in operating revenues resulting in increased debt service coverage levels

-Sustained trend of improving operating performance and significant increase in available liquidity

-Substantial increase in service area wealth measures

WHAT COULD CHANGE THE RATING DOWN:

-Significant decline in liquidity or pledged revenues

-Protracted delays in the completion of regulatory improvements
- Deterioration of net fixed assets, unanticipated debt issuance for capital needs

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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