



Rating Action: Moody's affirms the A2 rating on Unified Government of Wyandotte County/Kansas City, KS Board of Utilities' outstanding revenue bonds; outlook is stable

31 May 2023

New York, May 31, 2023 – Moody's Investors Service has affirmed the A2 rating on Unified Government of Wyandotte County/Kansas City, KS Board of Public Utilities' (BPU) outstanding revenue bonds of approximately \$590 million. The outlook is stable.

RATINGS RATIONALE

The A2 rating BPU's relatively diverse customer base, the benefits of offering multiple utility services, consistently stable financial performance as the utility has historically maintained robust debt service coverage ratios (DSCRs), averaging approximately 1.6x over the last three years, and an adequate liquidity profile which includes targeting days cash on hand of around 120 days. In that regard, management expects to fund a \$6 million reserve annually, or \$27 million through 2027, to help mitigate the risk associated with volatile market gas prices. Prospectively, we expect BPU will operate its business targeting 120 days cash on hand and (DSCR) in the 1.6x-1.7x range. BPU has a diversified resource mix and its rates remain competitive with its regional peers.

The rating also acknowledges BPU's historical willingness to adjust base rates as needed without being subject to any state or federal regulatory approval. However, the process for increasing rates is on the longer end relative to other publicly-owned utilities which could lead to some push back from customers, a risk that is increased by the regional unemployment and poverty rates that remain above state and national levels, and resident income levels that are below state and national averages. In the end, maintaining rate affordability is important to the utility's credit profile. This risk is mitigated by the existence of several cost recovery mechanisms for environmental investment, fuel cost recoveries, and transfers to the unified government. Currently, BPU is undergoing the process of increasing rates for its electric and water systems, which are expected to be implemented in July or August of this year. The anticipated rate increases are modest (2.5% for the electric system in 2023 and 2024; 6% for the water system in 2023 and 2024), especially since the last rate increase for the electric and water systems occurred in 2018 and 2013, respectively.

RATING OUTLOOK

The stable outlook reflects our expectation of continued sound financial performance and that the utility will be able to manage additional debt for capital improvements through sufficient internal cash flow generation, aided by rate increases, when needed, including the increase expected to be implemented later this year.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Debt service coverage ratio of over 2.0x and liquidity above 150 days on a sustained basis
- Reduced leverage measured by adjusted debt ratio below 60%
- Trend of strengthening socioeconomic indicators such as higher median household income of residents

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Debt service coverage ratio falls below 1.3x

- Days cash on hand declines below 50 days on a sustained basis

LEGAL SECURITY

BPU's revenue bonds are secured by a senior lien pledge of the net revenues of the combined water and electric utility systems.

The rate covenant is 1.2 times Average Annual Debt Service (AADS) for outstanding and subordinated debt. The additional bonds test is 1.3 times AADS, both historically and projected. The bonds also provide for a weak "springing" debt service reserve fund requirement, whereby if debt service coverage falls below 1.3 times for a 12-month period, the BPU would be required to fund a debt service reserve equal to 10% of the total principal amount but no greater than 125% of the average annual debt service. We view this feature as a moderate weakness to the legal security.

PROFILE

The BPU is a publicly-owned combined utility with both electric generation, transmission, and distribution that accounts for 85% of revenues and water treatment and distribution that represents 15% of revenues as of December 31, 2022. Service area covers over 65,000 electric and about 53,000 water customers over a 130 square mile territory in Wyandotte County, Kansas. Water is sourced from an aquifer below the Missouri River via two horizontal collector wells and treated at the Nearman Water Treatment Plant.

The majority of customers are residential but they only account for about 30% of revenues with demand primarily driven by commercial and industrial customers that account for approximately 50% of annual revenues. As of year-end 31 December 2022, the utility produced about \$385 million in gross operating revenue.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/rmc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Rodney Cannon
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Angelo Sabatelle
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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