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Upper Mohawk Valley Reg. Wtr. Fin. Auth., NY

Update to credit analysis following upgrade to Aa3

Summary

Upper Mohawk Valley Regional Water Finance Authority (Aa3) benefits from a strong financial position marked by conservative budgeting. The regional service area is modest and expected to grow over the next five years. Additionally, the authority benefits from sufficient debt service coverage.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for the district given the essential nature of the service provided and adequate liquidity. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the district changes, we will update the rating and/or outlook at that time.

On October 15, Moody's upgraded the revenue rating to Aa3 from A1.

Credit strengths

» Conservative management practices

» Ample system capacity

» Expected near-term service area growth

Credit challenges

» Elevated system leverage

» Below-average service area demographics

Rating outlook

Outlooks are generally not assigned to municipal utilities with this amount of debt outstanding.

Factors that could lead to an upgrade

» Further growth and diversification of the authority service area

» Improved debt service coverage ratio

Factors that could lead to a downgrade

- Decline in debt service coverage
- Decline in liquidity

Key indicators

Exhibit 1

Upper Mohawk Valley Reg. Wtr. Fin. Auth., NY					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	32 years				
System Size - O&M (in $000s)	$14,553				
Service Area Wealth: MFI % of US median	56.65%				
Legal Provisions					
Rate Covenant (x)	1.00				
Debt Service Reserve Requirement	DSRF funded at lesser of standard 3-prong test (Aa)				
Management					
Rate Management	Aaa				
Regulatory Compliance and Capital Planning	Aaa				
Financial Strength					
	2015	2016	2017	2018	2019
Operating Revenue ($000)	$22,073	$22,262	$22,529	$23,695	$24,049
System Size - O&M ($000)	$13,919	$12,992	$14,328	$13,396	$14,553
Net Revenues ($000)	$8,587	$9,777	$8,998	$10,992	$10,300
Net Funded Debt ($000)	$66,124	$66,502	$62,982	$58,783	$54,417
Annual Debt Service ($000)	$5,861	$5,880	$6,326	$6,399	$6,428
Annual Debt Service Coverage (x)	1.5x	1.7x	1.4x	1.7x	1.6x
Cash on Hand	231 days	283 days	302 days	338 days	338 days
Debt to Operating Revenues (x)	3.0x	3.0x	2.8x	2.5x	2.3x

The Legal documents have a rate covenant of 1.15 but it allows the coverage to include carryforward revenues. We have thus used a more conservative rate covenant of 1.00x as part of our analysis.
Source: audited financial statements; US Census Bureau; Moody's Investors Service

Profile

The regional water system serves portions of Oneida and Herkimer counties, and the City of Utica. The population of the area served is estimated at 130,000. The System's raw water source is the Hinckley Reservoir. Upper Mohawk Valley RWFA treats this water supply at its nine facilities and then distributes the treated water via a series of mains.

Detailed credit considerations

Service Area and System Characteristics: Growth in system expected over the next five years

The regional system's service area includes portions of Oneida (A1) and Herkimer (Aa3) counties and the City of Utica (Baa1). While the City of Utica's socio-economic profile is exceptionally weak, the system service area services some of the wealthier suburbs of Utica. Growth in the system is expected over the next several years as towns within Herkimer County contemplate joining the authority's regional service area. Positively, if those towns were to join, the authority would require that any necessary line or technology upgrades necessary to bring those systems up to the authority's standards be borne by the towns, not by the authority. The proposed expansion has been given federal grant money to do a feasibility study. If successful, the system would add nearly 22,000 customers (7,543 new service connections) with no costs to the authority. The system has more than enough capacity to bring on the new towns.

The system has ample capacity through its main source of water, the Hinckley Reservoir, which is a 25 billion gallon, multi-use reservoir owned by the State of New York (Aa2 stable). The DEC has issued a water supply permit which authorizes the withdrawal of up to 32 MGD, which can be expanded to 48.5 MGD as needed to meet growth demands. The average daily MGD of 19.4 is well below its capacity.

Financial Operations and Position: Satisfactory Financial Position Driven by Prudent Management and Regular Rate Increases

The financial operations of the authority will continue to remain strong given conservative budgeting, annually rate increases and strong management. Over the past five years the authority has managed to increase debt service coverage, lower debt to operating revenues and increase days cash on hand. Despite the ongoing pandemic, this is likely to continue into 2020 as management forecasts another surplus exceeding $10 million. Looking forward to 2021 through 2024, manage forecasts needing rate increases between 2% and 4.75% annually, which is consistent with historical averages. Additionally, those increases assume no growth within the system service area, which if it were to come to fruition in the next year or two would almost certainly result in a significant revenue increase for the authority.

Liquidity

Days cash on hand has increased significantly over the past five years and with planned surplus operations within the forecasted period there's no reason to believe that cash won't remain strong.

Debt and Legal Covenants: Elevated System Leverage; Manageable Capital Plan

The debt and legal covenants are moderate given that the legals allow for carryforward cash to be included as part of the debt service coverage. The anticipated 2020 bonds will carry a debt service reserve fund funded at the lesser of the three prong test. Looking forward, the authority's capital plans is manageable with no major capital needs expected over the next three years.

Legal security

The bonds are backed by the authority's net revenue pledge.

Debt structure

All of the authority's debt is fixed rate.

Debt-related derivatives

The authority has no exposure to debt-related derivative products.

Pensions and OPEB

Neither pensions or OPEB are major credit drivers for the utility. The three year average adjusted net pension liability for the authority is 0.61x revenues. The OPEB liability is under 0.3x revenues. Together, pensions and OPEB costs in 2019 accounted for approximately $1.1 million (4.5% of gross revenues). Total fixed costs is a somewhat elevated 31% of revenues, however the majority of that is from debt service.

ESG considerations

Environmental

Environmental considerations are not a primary driver of the rating.

Social

Social considerations are important inputs to the rate but were not a primary driver of the rating.

Governance

Governance was not a primary driver of the rating. System management continues to budget and project conservatively. Additionally, the system's five-year CIP is comprehensive and updated annually through an integrated approach to asset maintenance. Management recently introduced an Advanced Metering Infrastructure ("AMI") project to automate the meter reading process by connecting all meters to radio modems. Approximately 10,000 meters will also be replaced during this process.

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