



New Issue: [Des Moines Metro. Wwtr. Reclam. Auth., IA](#)

MOODY'S INVESTORS SERVICE ASSIGNS INITIAL A1 RATING TO DES MOINES METROPOLITAN WASTEWATER RECLAMATION AUTHORITY'S (IA) SEWER REVENUE BONDS, SERIES 2004A AND SERIES 2004B

Water/Sewer
IA

Moody's Rating

ISSUE	RATING
Sewer Revenue Bonds, Series 2004A	A1
Sale Amount \$28,515,000	
Expected Sale Date 10/25/04	
Rating Description Sewer Revenue	

Sewer Revenue Bonds, Series 2004B	A1
Sale Amount \$68,580,000	
Expected Sale Date 10/25/04	
Rating Description Sewer Revenue	

Opinion

NEW YORK, Oct 8, 2004 -- Moody's Investors Service has assigned an initial A1 rating to the Des Moines Metropolitan Wastewater Reclamation Authority's (Iowa) \$28.52 million Sewer Revenue Bonds, Series 2004A and the \$68.58 million Sewer Revenue Bonds, Series 2004B. Both series of bonds are limited obligations secured by the pledged revenues from the participating communities. The Series 2004A bonds will finance the acquisition from the City of Des Moines the Wastewater Reclamation Facility and acquire from certain participating communities all existing sanitary sewer conveyance facilities and various other sewer facilities. The Series 2004B Bonds will finance improvements and additions to the WRA system and pay project costs as well as fund a debt service reserve. Assignment of the A1 rating is supported by the strong service area served by the WRA characterized by highly rated yet small number of participants, the security of the debt service payments, a manageable amount of future capital needs, establishment of healthy reserve funds, and adequate legal structure with absence of a WRA rate covenant.

SUBSTANTIAL AND REGIONALLY IMPORTANT SERVICE AREA ECONOMY; STABLE CUSTOMER BASE

The Des Moines Water Reclamation Authority serves a substantial and regionally important service area. The WRA is a joint venture formed in 1979 for the purpose of providing regional sanitary sewer to customers in the greater Des Moines Area. With the most recent addition of participating communities, the 2003 customer base reached 355,000. The City of Des Moines (GO rated Aa2), which is responsible for 70% of O and M expenses and 46% of debt allocation, is the state capital and the state's regional trade and financial center. Future growth is expected to be driven largely by the city's ambitious Gateway Redevelopment Project. Currently, there are approximately \$1.5 billion of development projects underway, with a combination of commercial, industrial, and residential components. Financing of these projects will come from both public and private sources, and city officials expect added tax base growth due to these initiatives in the near future. Annexation has also increased the tax base, which provides additional vacant land for future development. Additionally, the varied employment opportunities in Polk County (GO rating Aa1) have kept the population level generally stable since 1990 and helped to keep unemployment low. Polk County's August 2004 unemployment rate of 3.6% was slightly below the state level (4.2%) and the national average (5.4% for the same time period). Wealth indices are approximate state levels. The customer base for the WRA system of 355,000 has been extremely stable, with Officials indicating that the customer base and wastewater levels

should remain constant to slightly increasing given ongoing development activities within the major portion of the service area.

DEBT SERVICE PAYMENTS SECURED BY PLEDGED REVENUES OF PARTICIPATING COMMUNITIES; PLEDGE INCLUDES CONTRACTUAL OBLIGATION TO MEET PROPORTIONAL SHARE

Pursuant to the Water Reclamation Authority (WRA) Agreement reorganized on July 1, 2004, the WRA treatment plant will be operated by the WRA and not the City of Des Moines, which also had the authority to issue revenue bonds on its behalf. Also pursuant to the new agreement, any bonds issued accordingly are payable from the revenues of the 14 participating communities and includes payments due for their respective shares of the costs of system operations and maintenance and debt service, which are allocated based on WRA flows. Each participating community has one representative to vote on WRA matters, with an additional member provided for any community with more than 25,000 residents. Constituent members of the WRA system include the City of Des Moines (sewer revenue rating Aa3), which has the largest percentage of both operation and maintenance costs at 70% and debt service allocation at 47%. The participating communities includes the City of West Des Moines (sewer revenue rating Aa3, with 12% of O & M costs and 16% of debt allocation), the City of Ankeny (sewer revenue rating A1 with 0% of O & M and 10% of debt service), The City of Altoona (sewer revenue rating A1 with 0.19% of O & M and 4% of debt allocation), the City of Bondurant (with 0% of O & M and 0.44% of debt allocation) and the City of Clive (sewer revenue rating A2 with 4.12% of O & M and 4.36% of debt allocation). Other participants include Greenfield Plaza/Hills of Coventry Sanitary District (with 0.53% of O & M and 0.37% of debt allocation), the City of Johnston (sewer revenue rating A2 (with 1.59% of O & M and 1.03% of debt allocation), the City of Norwalk (with 0.48% of O & M and 2% of debt allocation), the City of Pleasant Hill (with 1.37% of O & M and 1.06% of debt allocation), Polk County (G.O. rated Aa1 with 0.48% of O & M and 1.05% of debt allocation), Warren County, Urbandale Sanitary Sewer District (sewer revenue rating Aa3 with 7.21% of O & M and 9.82% of debt allocation), and Urbandale-Windsor Heights Sanitary District (with 2.27% of O & M and 2.57% of debt allocation).

MANAGEABLE FUTURE CAPITAL NEEDS EXPECTED

The WRA system's young age should keep debt levels manageable. Under the Agreement, the WRA is only authorized to issue \$475 million in additional debt and expects to issue \$328 million through 2008. Therefore, the additional bonds test, as currently defined, is simply the amount of total debt outstanding. According to the engineers report, all of the WRA facilities were constructed as new facilities between 1982 and 1994. Since 1994, three additional conveyance facilities were constructed and transferred to the WRA. The WRA facilities consist of the Wastewater Reclamation Facility (WRF) and various conveyance and treatment facilities, which includes equalization basins, pump stations, and inceptor sewers. The WRF originally constructed between 1936 and 1939, but was completely reconstructed between 1988 and 1994. It is an activated sludge treatment plant designed to meet secondary treatment standards and provide nitrification for ammonia reduction. The WRF was designed with a max monthly capacity of 97 MGD, and a peak capacity of 200 MGD, which occurs about every four years, with 2003 average daily flow of 41.5 MGD. The WRF is projected to have adequate capacity needs through 2040 with approximately 30% in reserve and the facility is currently in compliance with all state and federal regulations.

ADEQUATE LEGAL COVENANTS, HEALTHY RESERVE FUNDS ESTABLISHED

Moody's believes the WRA has adequate legal covenants despite a lack of a WRA additional bonds test and trustee agreement. The Agreement states that participating communities are responsible for their respective costs of O and M, including WRA administration, debt service, debt service reserve, and other special charges shall be allocated on the basis of WRA Flows. The participating community agreements state that the WRA's debt obligation shall be treated as standing as nearly as practicable on a parity and equality of rank with respect to the lien and claim to net revenues of any of the sanitary sewer utilities. While it is understood that most communities are legally obligated to provide a senior lien on the net revenues of their respective distribution systems for payment, Moody's believes the inclusion of "as practicable" slightly weakens this pledge and could make a junior lien pledge by a participating community possible. Another structural weakness is the absence of a trustee, leaving the WRA wholly responsible in the event of any reserve draw or other event of default. However, a structural strength to the system is the step-up provision requirement, with communities having to make payments based on WRA flow in the event a member fails to make payment.

Favorably, the Agreement establishes an O and M reserve at 35% of budgeted expenses, estimated at \$5.26 million, an equipment replacement fund of \$1 million, and renewal and replacement reserve fund of \$10 million, and a debt service reserve fund of \$5.14 million, with a total estimated minimum of \$23.18 million by fiscal 2006. Favorably, 25% of budgeted expenses in the O&M fund is already funded by cash from the participating communities. Each individual community has responsible for billing and obtaining the revenue

from their customers. The WRA will then bill each participating community monthly its share of O and M, debt service, and any surcharges imposed and will use its "best efforts" to collect the payments on a timely basis. Although no specific rate covenant exists for the WRA, each participating community has agreed to set rates that will produce at least 110% of the amount necessary to pay the participating communities allocated share of debt service. If a participating community fails to make a required debt service payment for a period of 30 days and the debt service reserve fund is utilized, each participating community will be required to make payments to fully replenish the debt service reserve based on WRA flows. Under this Agreement, a participating community may not terminate nor withdraw their obligation. If they should withdraw, they must provide one year's written notice to the Board of the proposed withdraw or modification and it will not become effective without Board approval. The Board, at its sole discretion, may require the participating community seeking withdraw to pay over to the Board an amount determined to be necessary to fully fund the future payment obligations with respect to Debt Service on all Bonds allocated to the participating community.

KEY STATISTICS:

System: Sewer treatment and distribution

Capacity: 42% of average daily demand

Number of participating communities: 14

Authority rate covenant: none

Participating Community rate covenant: 1.1x

Additional bonds test: maximum of \$475 million parity outstanding debt

Number of Customers: 355,000

Largest community: Des Moines 70% of O&M allocation and 47% of debt service allocation

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