

Research:

Des Moines Metropolitan Wastewater Reclamation Authority, Iowa; Utility, Water/Sewer

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Credit Profile

US\$68.58 mil swr rev bnds ser 2004B due 06/01/2034 AA
 Sale date: 12-OCT-2004
 US\$28.515 mil swr rev bnds ser 2004 A due 06/01/2012 AA
 Sale date: 12-OCT-2004

OUTLOOK: STABLE

■ Rationale

The 'AA' rating on Des Moines Metropolitan Wastewater Reclamation Authority (WRA), Iowa's series 2004A and 2004B sewer revenue bonds is based on the following credit factors:

- The "strong-link" nature of the wholesale system, providing for the levy of additional charges on nondefaulting members should nonpayment by a member community impair debt service payments,
- The credit quality and ability of the two leading system users--Des Moines ('AA'/stable) and West Des Moines ('AA+'/stable)--to absorb additional projected debt service if other defaults occur,
- Multiple reserve policies that provide ample near-term cushion should fiscal imbalances occur, and
- A deep and diverse service area economy.

The series 2004A bonds will be used to either acquire or defease various existing Des Moines loans and bonds. The series 2004B bonds will be used for system improvements and additions to the plant and collection system. Both series of bonds are secured by the net revenues of the WRA. The WRA pledges that it will compel participating communities to set rates or otherwise provide funds sufficient to pay all operating and maintenance (O&M) costs as well as debt service. Through the WRA agreement, however, member communities must set rates or provide other revenues sufficient to produce 1.1x coverage.

The WRA, previously a component of the Des Moines sewer system, is now a separate political body that issues bonds for and directs the operations of sanitary sewer infrastructure for 14 participating communities.

Historically, the city of Des Moines would have issued bonds for the WRA, and then have been reimbursed by the participating communities for debt service expenditures. With the amendment and restatement of the WRA agreement, debt will be issued by the WRA directly, with the participating communities reimbursing for both debt service and operations and maintenance expenses.

In addition to debt that is issued for improvements to WRA treatment capacity or distribution expansion, each individual participating community is still able to issue debt secured by net revenues of its own

sewer system for improvements to its local collection and pumping facilities that feed into the WRA's infrastructure.

Each participating community's pledge of revenues for O&M of WRA facilities is on parity with the pledge for operations of its local sewer collection system. For debt service on WRA-issued debt, each participating community's revenue pledge is on parity "as nearly practicable" in that WRA debt service must be included in local rate covenants and additional bonds tests, although no debt service reserve for WRA debt is held at the local level.

The authority has set up several reserve funds that provide excellent liquidity in the event a default occurs. Upon issuance of the bonds, the debt service fund will be funded at \$5.14 million, which is the maximum annual debt service on the series 2004B bonds. Total reserves in various O&M funds equal \$18.035 million. Once a draw on the debt service reserve fund occurs, the WRA is required to notify all member communities and to levy charges on all nondefaulting members (if the defaulting member is unable to pay its share) in proportion to their usage sufficient to restore the reserve fund. Participating communities and their share of total system flows is as follows: Des Moines (62.3%), West Des Moines (10.7%), Ankeny (6.9%), Urbandale Sanitary Sewer District (6.4%), Clive (3.7%), Altoona (2.7%), Urbandale-Windsor Heights Sanitary Sewer District (2.0%), Johnston (1.4%), Norwalk (1.3%), Pleasant Hill (1.2%), Greenfield (0.5%), Polk County (0.4%), and Bondurant (0.3%). Standard & Poor's Ratings Services expects that in the unlikely event that all participants except Des Moines and West Des Moines defaulted on their obligations, these two systems could shoulder the additional WRA debt service together in proportion to their usage without being downgraded below 'AA'.

The Des Moines metropolitan area serves as a national center for the insurance industry and as a regional finance, health care, and service center. The City of Des Moines serves as the state capital and the Polk County seat, and is Iowa's largest city. The Des Moines MSA's 2003 unemployment rate averaged 3.7% and was slightly below the state average of 4.3% and is consistently below the national average due to the area's diverse employment base. Per capita effective buying income is above average, at 117% and 105% of the state and national averages, respectively.

■ Outlook

The stable outlook reflects the expectation of continued economic stability, sound credit quality of member communities (particularly West Des Moines and Des Moines) and the willingness and ability of the WRA to implement ongoing rate increases as needed.

■ Economy

Des Moines has been actively engaged in economic development initiatives to bring revitalization to parts of the city with work underway to convert old manufacturing, warehousing areas into mixed commercial and residential neighborhoods. Downtown developments underway include the Iowa Events Center, a higher education center, a new central library, a restored performing arts center, and a science center. The completion of the Iowa Events Center next year is expected to boost tourism and revive its hospitality industry. West Des Moines' developers are planning the future construction of new hotels to add as many as 1,000 rooms. Private development includes the recently completed Allied Gateway campus and the Wells Fargo & Co. corporate division expansions; these developments account for roughly 1,800 jobs each and more than \$200 million of investment. New housing developments southeast of Des Moines meet both the needs of first-time homebuyers and those looking for custom-designed homes.

Iowa's new gaming bill that lifted the ban on casino construction could prompt an expansion project to the casino space and facilities at Prairie Meadows Racetrack and Casino. The new gaming bill also allows for the addition of gaming tables at the racetrack that could potentially bring in \$60 million in additional revenues.

Des Moines has experienced recent job growth since the start of this year and has enjoyed historically low unemployment rates. The area is seeing a growing demand for health and business services that can offset moderating construction jobs and tight state fiscal conditions leading to a reduction in state government payrolls. Des Moines offers a highly educated labor force and a relatively low-cost environment that are attractive to relocating businesses.

Leading area employers include:

- Wells Fargo, 9,200 employees;
- Principal Financial Group, 8,000;
- State of Iowa, 6,963;
- Mercy Hospital Medical Center, 6,200; and,
- Des Moines Public Schools, 4,700.

■ **Des Moines Metropolitan Wastewater Reclamation Authority**

The WRA was established July 1, 2004, by 14 metropolitan communities pursuant to the adoption of an amended and restated agreement dating back to 1979 concerning intergovernmental cooperation for solid waste disposal and sewage treatment. While the WRA member communities previously have operated as a wastewater treatment cooperative under the auspices of the city of Des Moines, the new amended and restated agreement creates a more independent governance structure, establishes independent bonding authority for the agency, and provides a framework for additional communities to acquire ownership interest in the WRA as the metropolitan area grows. The WRA is governed by a board whose members are appointed by the member communities. Each participating community is entitled to one member, plus additional members based on population. Board responsibilities include:

- Establishing policies and bylaws,
- Directing the activities of the operating director (the city of Des Moines),
- Reviewing and adopting annual budgets and capital improvement plans, and
- Authorizing the issuance of debt.

The WRA has entered into a 20-year operating contract with the city of Des Moines providing for the city to operate and manage the sewage treatment system.

■ **Legal Provisions**

Each community will pay its share of debt service, operations, and (for newer communities) any surcharges based on current and future flows. Under the agreement, each member community covenants to set rates or otherwise provide such revenues necessary to equal 110% annual debt service. Member communities' allocated share of WRA's operations and maintenance costs are on parity with each participating community's own operating expenses. For debt service costs, member communities' allocated share of debt service is on parity "as nearly practicable" with the participating community's own senior debt service costs. As such, the participating community must include its share of WRA debt service in tests to meet any rate and additional bond covenants for outstanding local revenue bonds. Because no debt service reserve is held at the local level for WRA obligations, true parity is limited in some cases.

At the WRA level, charges to member communities must be set to at least cover all operations and debt service costs and to cure any deficiencies in any reserve funds. To issue additional bonds, net revenues must provide 1.1x coverage of current and future debt service. While the WRA's own rate covenant is low (which is typical for wholesale systems), the higher rate covenant for member communities together with substantial reserves at the WRA level addresses the risk of budget imbalances. Reserve policies include:

- An O&M reserve equal to 35% of budgeted expenses (about \$5.26 million),
- An equipment replacement fund established at \$1 million,
- An insurance reserve fund established at \$1.8 million,
- A renewal and replacement reserve funded at \$10 million, and
- A debt service reserve funded at \$5.1 million.

Finally, to the extent that any member community defaults on its obligations to the WRA, which results in a draw on the debt service reserve fund, the WRA is empowered to levy a special charge on all other member communities to cure the reserve fund deficiency. Member communities are required to pay the

special charge within 90 days.

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