

RatingsDirect®

Summary:

Livonia, Michigan; Water/Sewer

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Credit Profile

US\$6.5 mil wtr supp and wastewtr sys rev bnds ser 2023 dtd 10/17/2023 due 10/01/2043

Long Term Rating

AA-/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AA-' rating to the City of Livonia, Mich.'s \$6.5 million series 2023 water supply and wastewater system revenue bonds.
- The outlook is stable.

Security

A first lien on net revenues of the city's water and sewer system secures the bonds. Following this issuance, the city will have \$14.8 million in parity system debt outstanding, and an additional \$12.1 million in state revolving fund subordinate debt. All 2023 debt is intended to advance the capital plan, specifically to replace a portion of the system's water mains. The city has an additional \$10 million in parity debt planned within the next 18 months, also for water mains. We consider bond provisions credit neutral overall.

Credit overview

The 'AA-' rating reflects our view of the system's extremely strong debt service coverage (DSC) and strong, stable cash position, with policies to pass along rates imposed by the system's wholesaler, effectively maintaining the cash position over the longer term. Although capital planning is limited, reflected by what we consider a somewhat dated 2019 master plan with no identified funding sources nor updated projects, we recognize that a system that is distribution-and-collection only generally does not require such intense capital planning.

The rating further reflects:

- Extremely strong all-in DSC over the past three years, which is expected to decline somewhat from the most recent audited year but remain extremely strong despite additional debt plans beyond this issuance;
- A low debt burden of about 21% following this issuance, projected to rise further but remain manageable following the city's additional planned debt for the system;
- A sufficiently diverse customer base, with the top 10 representing about 11% of revenues, and the single-largest user just less than 6%;
- A retail customer-oriented system in a service area with limited population growth, within a county exhibiting moderately high poverty rates approaching 20%, and moderately affordable rates, representing about 1.5% of median household effective buying income;
- Extremely strong liquidity on a days' cash basis, bolstered by management's targeted floor of four months' operating expenses plus 1.5% net book value, in addition to its policy to pass along annual wholesale rate increases in full; and

- Limited capital planning.

Environmental, social, and governance factors

Social risks, in the form of affordability, are credit neutral at this time. However, given limited population growth, this could increase over the longer term, should a smaller customer base with more limited wealth and income levels need to support an aging system with ongoing capital needs, especially if management relies exclusively on wholesale rate-increase pass-throughs.

Because the utility is not focused on expansion, and there is an asset management plan in place, we believe there is ample maintenance of the existing system. Water supply is ample, given its location, and management is focused on replacing water mains as necessary in terms of aging infrastructure. Therefore, we believe environmental risk is credit neutral, and note that to date infiltration and inflow in terms of the wastewater system is limited to extreme wet-weather events.

Finally, we believe governance risks are somewhat mitigated by an informal policy of rotating field-staff employees through various operational areas, thereby targeting long-term cross training. We also note that the city maintains cyber insurance, conducts ongoing cyber risk-related training, and we believe demonstrates general awareness of ongoing cyber threats through its practices.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of recently extremely strong all-in DSC and our view that liquidity will be maintained at such a level to keep days' cash extremely strong.

Downside scenario

We could take a negative rating action should DSC prove volatile, or if liquidity were not maintained consistently above management's target threshold. Significant deterioration in the service area's economic fundamentals could also contribute to a negative rating action.

Upside scenario

Due to the authority's all-in DSC, especially in the most recent fiscal year, we could raise the rating if longer-term forecasts demonstrate a trend consistent with recent results. We would also consider an upgrade should management adopt practices reflective of a more formalized system, such as longer-term capital plans and financial policies.

Credit Opinion

Enterprise risk

The system is sufficient to meet demand, and has no growth projects in its capital plan. Funds from this transaction will replace approximately 2.75 miles of water mains; management plans to replace an additional almost 13 miles within the next five-years. Operational management practices are standard overall, including only having minimal sewer overflow (in major wet-weather events), and no recent environmental violations. Management also maintains a formalized asset management plan. Rate-setting practices are primarily limited to yearly adjustments, essentially

driven by purchased rates from the system's wholesaler, Great Lakes Water Authority (GLWA). There are no take-or-pay minimums, and GLWA provides both treated water and treats Livonia's wastewater flows. Management said its primary goal in terms of rates is to be cash-neutral, therefore passing along any annual rate increases imposed by GLWA. Overall, we believe the city's system management practices are reflective of a system that need not be focused on growth in order to keep up with demand.

Financial risk

Over the past three years, DSC has well exceeded 3.0x, which includes subordinate-lien debt as well. Given this issuance and an additional planned \$10 million issuance within 18 months, we do not expect DSC ratios will remain as high as that achieved in the most recent fiscal year, but still expect such ratios to be what we consider extremely strong.

In addition, given management's policy to pass along GLWA rate increases, we expect the cash position will remain stable as well. Furthermore, in terms of liquidity, we would expect that due to management's targeted floor, the nominal liquidity values would increase over time.

Overall, we consider financial management practices and policies to be standard, but note that while there is no official debt management policy, the debt burden appears manageable, even factoring in debt beyond the 2023 issuance. The capital plan itself is a list of projects that does not identify dates or years. Budget updates occur monthly.

Livonia, Michigan--Economic and financial data

	Most recent	Fiscal year-end			Median (AA-)
		2022	2021	2020	
Economic data					
Water customers	--				12,714
Sewer customers	--				11,894
MHHEBI of the service area as % of the U.S.	118.0				101.0
Unemployment rate (%)	2.0				4.5
County poverty rate (%)	19.6				11.4
Water rate (6,000 gallons or actual) (\$)	48.9				38.0
Sewer rate (6,000 gallons or actual) (\$)	47.6				41.0
Annual utility bill as % of MHHEBI	1.5				1.0
Operational Management Assessment	Standard				Good
Financial data					
Operating revenues (\$000s)		41,958	39,940	42,422	15,420
Total operating expenses less depreciation (\$000s)		35,142	35,285	34,965	9,283
S&P Global Ratings-adjusted all-in DSC (x)		3.5	2.9	3.7	2.0
Unrestricted cash (\$000s)		15,042	12,874	23,197	11,964
Days' cash of operating expenses		156	133	242	493
Total on-balance-sheet debt (\$000s)		21,279	18,661	13,219	24,482
Financial Management Assessment		Standard	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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