

## ISSUER COMMENT

13 January 2021

### RATING

#### Revenue <sup>1</sup>

A1 No Outlook

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## City of Ypsilanti

### Annual Comment on Ypsilanti Water & Sewer

#### Issuer Profile

Ypsilanti Water & Sewer provides water and wastewater service to Washtenaw County, Michigan, which has a population of 367,000 and a moderate population density of 517 people per square mile. The county's median family income is \$102,099 (1st quartile) and the November 2020 unemployment rate was 3.4% (1st quartile) <sup>2</sup>. Water is purchased from the City of Detroit and distributes via a series of water mains. The Authority collects sewage and treats it at its wastewater treatment plant

#### Credit Overview

Ypsilanti Water & Sewer's credit position is solid. Yet, its A1 rating is slightly under the median rating of Aa3 for US water and wastewater systems. The notable credit factors include robust liquidity, an elevated debt profile, but a below-average income service area. The credit profile further includes a small system size and a sufficient debt service coverage.

**System Characteristics:** Ypsilanti Water & Sewer has a weak system profile, which is very unfavorable in relation to the assigned rating of A1. The median family income equals a mere 68.6% of the US level. Additionally, the system size, measured as operating and maintenance expenses (\$6.4 million), is aligned with the US median.

**Financial Strength:** The financial position of Ypsilanti Water & Sewer is superlative overall and is very strong in relation to its A1 rating. The days cash on hand (411 days) is good but below the US median. Furthermore, the debt to operating revenues (6.2x) is very heavy and well above other Moody's-rated water and wastewater systems nationwide. Additionally, the coverage of the annual debt service by net revenues (1.0x) is slim and much lower than the US median.

#### Sector Trends - Michigan Water and Sewer

Water and sewer systems in Michigan are relatively old and need significant ongoing maintenance. Financial metrics slightly lag US medians. Median debt service coverage (1.6x) is slightly weaker the national median. Median liquidity (377 days cash) is slightly weaker than the national median but still considered to be robust. Debt levels (2.2x debt to operating revenue) approximate those of the US. Given its location within the Great Lakes region, most of the state benefits from an abundance of fresh water, and few utilities face supply constraints. Both water and sewer utilities in Michigan benefit from unlimited rate-setting autonomy. Water and sewer enterprises in the US are heavily regulated both at the federal and state levels, and frequently incur heavy capital costs in order to comply with environmental requirements. Some sewer systems within the state have combined sewer overflow (CSO) consent decrees that will require significant future debt.

## EXHIBIT 1

## Key Indicators 3.4 Ypsilanti Water &amp; Sewer

Credit Metrics	2015	2016	2017	2018	2019	US Median	Credit Trend
Annual Debt Service Coverage (x)	1.03x	1.61x	1.61x	0.77x	1.00x	2.30x	Stable
Days Cash on Hand (Days)	263	348	471	510	411	467	Improved
Debt to Operating Revenues (x)	7.5x	6.7x	6.3x	5.8x	6.2x	2.1x	Improved
Median Family Income (% of US Median)	68%	70%	70%	70%	69%	90%	Stable
Remaining Useful Life of Capital Assets (Years)	82	78	74	71	70	26	Weakened

Debt and Financial Data (\$000s)	2015	2016	2017	2018	2019	US Median
Net Funded Debt	\$69,053	\$65,059	\$64,445	\$60,471	\$56,289	\$59,249
Total Revenues	\$9,253	\$9,815	\$10,239	\$10,438	\$9,176	\$33,080
Operating and Maintenance Expenses	\$6,372	\$5,274	\$5,784	\$8,283	\$6,379	\$18,476
Net Revenues	\$2,880	\$4,541	\$4,455	\$2,154	\$2,797	\$13,916
Debt Service	\$2,800	\$2,813	\$2,766	\$2,786	\$2,792	\$5,805

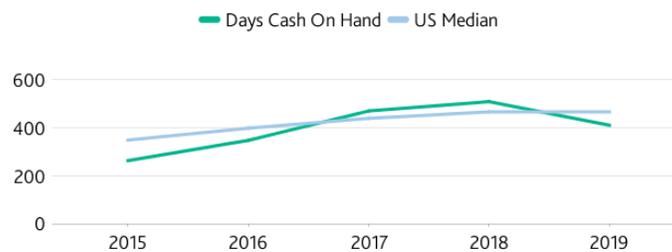
  

Governance/Legal Provisions	Score
Rate Management	Aa
Regulatory Compliance and Capital Planning	A
Rate Covenant	Aa
Debt Service Reserve Requirement	Aa

Source: Moody's Investors Service

## EXHIBIT 2

## Days cash on hand has increased from 2015 to 2019

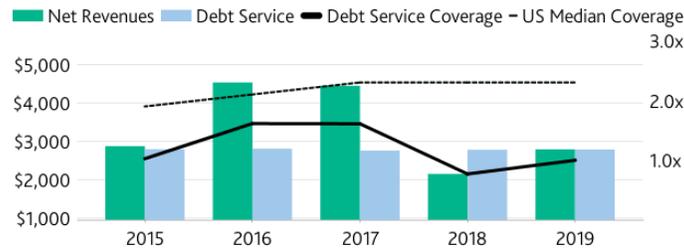


Source: Moody's Investors Service

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## EXHIBIT 3

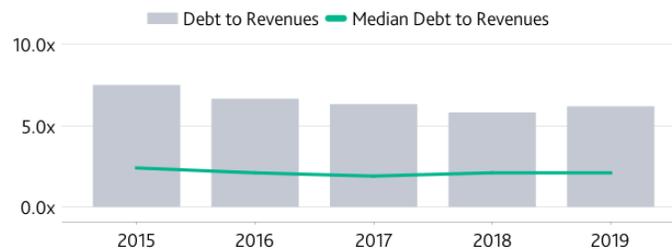
## Debt service coverage decreased from 2015 to 2019



Source: Moody's Investors Service

## EXHIBIT 4

## Debt to operating revenues decreased from 2015 to 2019



Source: Moody's Investors Service

## Endnotes

- 1 The rating referenced in this report is the rating of the senior most lien on the relevant pledged revenues. Some utilities have bonds separately secured by distinct revenue sources. For these utilities, the rating referenced in this report is the senior most rating only on the relevant revenue pledge (e.g., water); the utility could have a higher rating on a different type of revenue bond (e.g., sewer).
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 Moody's calculations of various statistics can be different than calculations reported in audited financial statements or offering documents. Moody's makes standard adjustments to reported financial data, to facilitate comparisons across issuers. For definitions of the metrics in the Key Indicators Table, see our [US Municipal Utility Revenue Debt](#) methodology.
- 4 The medians come from our most recently published report, [Medians - Solid financial performance, ability to increase rates underpin stability \(May 2020\)](#).

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