

RatingsDirect®

Summary:

Columbus, Nebraska; Water/Sewer

Primary Credit Analyst:

Gregory Dziubinski, Chicago (312) 233-7085; gregory.dziubinski@spglobal.com

Secondary Contact:

Scott D Garrigan, Chicago (1) 312-233-7014; scott.garrigan@spglobal.com

Table Of Contents

Rationale

Enterprise Risk

Financial Risk

Outlook

Summary:

Columbus, Nebraska; Water/Sewer

Credit Profile

US\$16.0 mil comb rev and rfdg bnds ser 2016 dtd 09/16/2016 due 12/15/2036

<i>Long Term Rating</i>	AA/Stable	New
Columbus comb rev		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Columbus comb rev (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
Columbus comb rev (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
Columbus comb util (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
Columbus wtr & swr (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA' from 'AA-' on Columbus, Neb.'s existing combined revenue debt. At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the city's series 2016 combined revenue and refunding bonds. The outlook is stable.

The rating action reflects the application of our updated criteria "Rating Methodology And Assumptions For U.S. Municipal Waterworks And Sanitary Sewer Utility Revenue Bonds," published Jan. 19, 2016 on RatingsDirect, combined with our expectation that the combined system will maintain strong coverage and liquidity given management's willingness to raise rates and the system's stable customer base.

The rating reflects, in our opinion, the combination of a very strong enterprise risk profile and a very strong financial risk profile.

The enterprise risk profile reflects our view of the combined system's:

- Lack of participation in a broad and diverse metropolitan statistical area economy, which is mitigated by the city's role as a regional hub;
- Very low industry risk as a monopolistic service provider of an essential public utility;
- Affordable rates; and
- Good operational management practices and policies.

The financial risk profile reflects our view of the combined system's:

- Debt service coverage (DSC) that has been above 2x since fiscal 2013,

- Very strong liquidity,
- Moderate system leverage, and
- Good financial management practices and policies.

The series 2016 bond proceeds will be used for payment and redemption of the city's series 2011 combined revenue bonds and to pay costs of certain improvement to the city's sanitary sewer system, particularly the system's phase 3 expansion.

Net revenue of the city's combined water and sewer system and gross payments received by the city from Loup River Public Power for the use of city distribution lines secure the series 2016 bonds. The city is issuing the series 2016 bonds on parity with the combined system's existing debt. The debt service reserve requirement will be funded with a surety policy. Other provisions include a rate covenant requiring 1.10x annual debt service coverage and an additional bonds test requiring 1.25x average annual debt service coverage.

The city leases its distribution lines to Loup River through a recently updated retail service agreement that expires in December 2040. Current agreement provisions state the district will pay the city 10% of gross operating revenue generated by the district from the city's electric customers through December 2020, and increasing thereafter to 11%. The system has generally transferred lease payments to the city to support general fund operations, but can make transfers only after meeting the bonds' 1.1x net revenue covenant. Even without the support of the lease revenue, net revenue from the water and sewer utility is sufficient to cover debt service on the utility system's debt outstanding.

Enterprise Risk

Columbus has an estimated population of 22,300 in Platte County, about 85 miles west of Omaha. Although the city does not participate in a broad and diverse metropolitan statistical area, it is a regional employment hub. Income indicators are good with median household effective buying income at 102% of the national average in 2015. The unemployment rate for Platte County was 3.8% in June 2018, between the state's 3.5% and the nation's 5.1%.

The system serves a combined 8,900 water and sewer customers in the city and some unincorporated areas outside city limits. While most customers are residential, the 10 leading water and sewer system users are moderately concentrated, accounting for 34% of water revenue and 42% of sewer revenue in fiscal 2015. Becton Dickson, a medical device manufacturer, is the leading water and sewer customer, accounting for 29% of water revenue and 21% of sewer revenue in fiscal 2015.

For fiscal 2016, the combined monthly rate for water and sewer service is what we consider affordable at \$41.79 per 6,000 gallons consumed, including a monthly fixed charge. The city has approved rate increases through fiscal 2017, and it typically approves rates in five-year blocks. Rates need only the city council's authorization to become effective.

We view operational management of the system to be good. The system includes the city's water and sanitary sewer systems. The water system draws water from 16 wells, and the water production facility has a design capacity of 20.2 million gallons per day (mgd), which is adequate to meet average demand of 5 mgd and peak demand of 14 mgd. The city is completing projects to expand wastewater treatment capacity and will be completing phase 3 of four in 2017 and 2018. The treatment plant is designed to treat average flows of 6.0 mgd with actual averages at roughly 3.8 mgd.

Although management lacks a formal drought management plan, conservation practices are in place should they be required. Management reviews rates annually and formal rate studies are completed every five years. Management adopts multiyear increases in five-year increments and has scheduled 10% rate increases for October 2016 and 2017, but we understand that management plans to conduct a formal rate study in 2016.

Consistent with "Methodology: Industry Risk," published Nov. 19, 2013, we consider industry risk for the combined system to be very low, the most favorable assessment possible on a six-point scale on which '1' is best.

Financial Risk

The combined water and sewer system's financial performance has been strong, in our opinion, when measured by debt service coverage (DSC) and unrestricted liquidity. Annual DSC on the system's bonds has been very strong. At fiscal year-end Sept. 30, 2015, net revenue produced 2.34x all-in DSC, when taking into account transfers out to the city's general fund. We note that all-in DSC has been maintained above 2x since fiscal 2013. System liquidity, measured by cash on hand, has also been very strong. For fiscal 2015, unrestricted cash and investments, which include accrued cash in the electric fund generated from excess lease payments (excluding unspent bond proceeds), totaled \$10.5 million, or 484 days' cash on hand. For fiscal years 2016 and 2017, we understand the city expects to report financial results similar to fiscal 2015 results, barring an unforeseen weather event.

Management reports that the city's five-year capital improvement program totals about \$34 million from 2017 through 2021. Management anticipates issuing additional combined revenue bonds for future capital projects within the next three to five years, including an estimated \$11.8 million for the completion of current wastewater treatment expansion. As of fiscal year-end Sept. 30, 2015 the combined system was moderately leverage, in our opinion, with a debt-to-capitalization ratio of 46.7%.

We view financial management of the system as good, meaning policies are embedded and likely sustainable. Interim financial results are produced monthly and shared with department heads. Management updates its multiyear capital improvement plan annually during budgeting. Management does not maintain long-term financial projections. It has no formal policies regarding liquidity, but the system has maintained very strong unrestricted cash over the past three fiscal years. Investments are guided by state statutes. Independently audited financial statements are produced annually, and the utility has no privately placed debt.

Outlook

The stable outlook reflects our opinion that the utility will likely sustain its solid financial and operational performance. In addition, the outlook reflects our expectation that the system's additional capital needs are unlikely to place an undue burden on finances.

Upside scenario

We do not expect to raise the rating within the outlook period given that the customer base is stable and the city expects its financial performance to be similar to that achieved in the past.

Downside scenario

Should the system's financial performance deteriorate with management not passing timely rate increases, and if transfers into the general fund were to pressure the utilities' liquidity and DSC, we could lower the rating, particularly as the system works through its planned capital needs.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2016 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.