

RatingsDirect®

Summary:

Wyandotte County/Kansas City Unified Government, Kansas; Combined Utility

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Credit Profile

Wyandotte Cnty / Kansas City Unif Govt comb util

Long Term Rating

A/Stable

Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'A' long-term rating and underlying (SPUR) on the Unified Government of Wyandotte County/Kansas City, Kan.'s Board of Public Utilities' (BPU, or the utility) revenue bonds outstanding.
- The outlook is stable.

Security

Net revenues of the utility secure the bonds. The utility includes the electric and water systems. Given approximately 80% of net revenues come from the electric system, we use our U.S. Municipal Retail Electric And Gas Utilities rating methodology. As of Dec. 31, 2021, the utility had \$658 million of debt outstanding.

Credit overview

The rating reflects our view of BPU's diverse power supply and fuel mix through a combination of owned generation and long-term purchased power agreements (PPA). During Winter Storm Uri in 2021, we understand BPU's units operated well despite the jointly owned combined cycle plant being offline for a few days. BPU was able to maintain stable financial performance despite extremely high power costs given the pass-through of fuel costs through BPU's Energy Rate Component (ERC). BPU was also long on power and sold excess power into the market, resulting in the reduction of the ERC in the second quarter of 2021. Nevertheless, we note the below-average income indicators and modestly elevated electric rates compared to the state average. Despite planned debt issuances to fund BPU's capital plan, we believe management will continue to increase rates when needed to maintain stable financial performance.

The enterprise risk profile reflects our view of BPU's:

- Location in the Kansas City metropolitan area, although income levels in the service area are only 77% of the national median;
- Weighted-average electric rate 107% of the state average and a monthly water bill for 8 hundred cubic feet, which we view as moderately affordable at about 1.4% of median household effective buying income, along with an elevated county poverty rate at 16.9%; and
- Operational management highlighted by a diverse electricity supply portfolio of owned generation and PPAs, along with enough water supply and treatment for the next couple of decades.

The financial risk profile reflects our view of BPU's:

- Average fixed-charge coverage (FCC) during the past three years (2019-2021) at about 1.45x, which we project will decline modestly as BPU layers on additional debt to fund capital needs; however, we note BPU is in the process of an electric and water rate study;
- Adequate liquidity and reserves, reflecting BPU's ability to meet expenses for 73 days with about \$44 million in unrestricted reserves in fiscal 2021; and
- Moderate debt-to-capitalization ratio at about 56% for fiscal 2021 that we expect will rise modestly with the planned debt of about \$54 million during the next five fiscal years.

Environmental, social, and governance

Environmental risks are moderately credit negative given coal-fired generation was about 22% of BPU's power supply in 2021, a decline from 38% in 2019. With about a fourth of electricity coming from coal-fired generation, the utility could face onerous future greenhouse gas emission regulations. Kansas has a voluntary Renewable Energy Standard goal of generating 20% of peak demand from renewable energy sources. In our view, BPU is well positioned with its renewable resources given renewables make up nearly 50% of the energy mix on an annualized basis.

Social risk factors are credit neutral. Although the weighted average electric rate is modestly above the state average and income levels are below the national average, BPU noted that delinquencies have remained at less than 1%.

Governance risk factors are credit neutral. In our opinion, management's practice of annually updating long-range forecasts and capital plans is credit supportive. Additionally, BPU maintains coverage, reserve, and investment targets, which it has historically met or exceeded.

Outlook

The stable outlook reflects our view that BPU will have its rate study completed and continue to adjust electric and water rates as needed to maintain financial stability while progressing through its capital plan. Further supporting our stable outlook is our view of the strength of the combined electric and water pledge that contributes diversity to BPU's financial position.

Downside scenario

We could lower the rating if the increase in leverage and high power costs are not offset by the dynamic and timely pass-through to BPU's customers, resulting in weaker financial performance, or if unrestricted cash is spent down more than planned to fund BPU's capital plan.

Upside scenario

We believe upside potential is limited during our outlook time frame given the planned debt and projected modestly weaker FCC. Nevertheless, we could raise the rating if FCC and unrestricted liquidity substantially rise and are sustained at levels comparable with those of peers at the higher rating level.

Credit Opinion

Enterprise risk

BPU serves electric and water customers in the Kansas City, Kan., metropolitan area. Residential customers accounted for 27% of electric revenue in 2021, which in our view is adequate, given our opinion that commercial and industrial customers are more volatile. However, we note the 10 leading customers are diverse, representing only 15% of revenue in 2021. The top 10 customers include firms in the transportation, health care, and manufacturing industries.

In 2020, according to the most recently available Energy Information Administration data, BPU's weighted average electricity rate was 107% of the state's average, which could result in less rate-raising flexibility. The utility has shown a willingness to increase rates when needed, which we view positively, and is in the process of updating an electric and water rate study. Management does not plan to increase electric base rates until the rate study is completed. However, BPU has an automatic ERC rider to recover power supply costs not recovered in base rates. BPU also has an environmental surcharge rider. We view these riders favorably because they allow BPU to recover changes in fuel and environmental regulation costs quickly. We understand water rates have not been increased since 2013, but management anticipates a 4%-5% annual increase during the next five years, depending on changes from the rate evaluation.

In our opinion, BPU has a diverse power supply consisting of two active electric power generating stations, a 17% ownership interest in a combined cycle power generating station, and seven long-term PPAs (primarily renewable resources). BPU is also a member of the Southwest Power Pool. In 2021, the fuel mix was diverse, with 22% coal, 55% net power purchases (wind, landfill gas, hydro, wind and solar), 16% gas, and 7% oil. In 2021, we note that generated power was about 71% of total load and purchased power (net of market sales) was about 29%. BPU does not expect any material changes to its power supply mix besides potentially adding a small amount of additional renewable PPAs. We view positively the number of entities from which the utility obtains electricity, as well as the variety of fuel sources.

Water supply and treatment is sufficient to meet near-term demand. BPU can obtain as much as 80 million gallons per day (mgd) of water from an aquifer below the Missouri River. With treatment capacity of 72 mgd and maximum day demand of 42 mgd, the utility needs no additional supply or treatment for the next couple decades; average day demand has been less than 30 mgd in recent years.

Financial risk

FCC has been good during the past three fiscal years averaging at 1.45x, which we expect will decline modestly as BPU layers on future debt. Our FCC includes the fixed costs associated with purchased power and transfers out. FCC increased in fiscal 2021 to 1.6x due to higher market sales during the severe weather event of 2021 and the fuel cost adjustment, which was used to offset higher commodity prices during this event. As noted, our analysis of management-provided projections indicates FCC will decline to 1.24x by fiscal 2026; however, we recognize BPU's track record of financial stability and understand that BPU is undergoing a rate study that might change the size and timing of future electric and water rate increases. The forecast includes about \$54 million of planned loans and debt, water rate increases of 4%-5% annually, and no electric rate increases.

In our opinion, unrestricted cash and investments is adequate at about \$44 million, equivalent to 73 days of operating expenses. We understand about 67% of the capital plan will be funded through reserves but management targets to maintain around \$50 million, which is in line with recent trends.

The utility's debt-to-capitalization ratio was about 56%, which is manageable for a vertically integrated utility, particularly given that BPU has both electric and water operations. We do not expect the planned debt will materially increase BPU's leverage. Over the next five years, the utility plans capital spending of about \$259 million, with about 67% funded from reserves, 30% debt/loans, and 3% through grants.

Related Research

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

Ratings Detail (As Of August 15, 2022)		
Wyandotte Cnty / Kansas City Unif Govt comb util (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt comb util (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt comb util (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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