

Rating Update: Wylie (City of) TX Wtrwrks & Sewer Enterprise

MOODY'S UPGRADES TO A3 FROM Baa1 THE UNDERLYING RATING FOR CITY OF WYLIE TX WATERWORKS AND SEWER SYSTEM REVENUE BONDS

A3 RATING AFFECTS \$3.125 MILLION OF REVENUE DEBT OUTSTANDING

Water/Sewer
TX

Opinion

NEW YORK, Jul 24, 2009 -- Moody's Investors Service has upgraded the City of Wylie (TX) Waterworks and Sewer System long-term rating to A3 from Baa1, affecting \$3.125 million in outstanding revenue bonds. Bondholder security is provided by a first lien on and pledge of the net revenues of the City's Waterworks and Sewer System. The upgrade reflects recent customer base growth, the water and sewer system's adequate debt service coverage, diminishing debt position, and strong management.

HIGH CUSTOMER BASE GROWTH NOW SLOWING

The water and sewer system serves the City of Wylie (Moody's GO rated A2), located approximately 23 miles northeast of downtown Dallas (Moody's Aa1). There are 10,981 active water and 12,862 sewer accounts, with a revenue mix of roughly 95% residential and 5% commercial/industrial accounts. The customer base has nearly doubled in size for both water and sewer since the last rating in 2002. The top ten water customers compromise only 8% of total usage, and these customers are projected to remain stable. Water supply is contracted with the North Texas Municipal Water District, with all rate increases passed through to customers. Officials report that water and sewer customers are expected to grow at a stable rate of around 7-8% in the near future. Moody's believes that growth projections are reasonable and that the water system is poised to service possible new expansion.

DEBT SERVICE COVERAGE ADEQUATE AND CONSISTENT INCLUDING GENERAL OBLIGATION DEBT PAID BY THE SYSTEM

The water and sewer system has \$3.125 million in outstanding revenue debt and a combined total debt obligation of \$13.99 million due to certificates of obligation paid by the system. Debt service coverage has stayed manageable over the past 3 years, starting with 1.30x (8.6x revenue coverage) in fiscal 2006, falling to 1.06x (9.1x revenue coverage) in fiscal 2007 due to heavy rainfall, and then increasing to 1.32x (6.26x revenue coverage) in fiscal 2008. Although coverage of the certificates of obligation debt is not legally required by the system, the historical payment of this debt by the system warrants the inclusion in the coverage ratio.

The rate covenant is equal to 1.20 times annual debt service requirements. The additional bonds test is 1.25 times maximum annual principal and interest for all parity debt and new issuance. Officials also report that there are no plans to issue debt in the future, and capital improvement projects will be funded primarily through the use of impact fees. Moody's believes the debt service coverage levels for both revenue debt and historically supported total debt are consistent with the A3 rating.

STRONG MANAGEMENT MAINTAINS HEALTHY SYSTEM AND FINANCIAL OPERATIONS

The City's management team has maintained strong financial operations with the high levels of growth experienced since the last rating action. The system is well maintained with a current water loss of less than 5%, and a recently completed meter replacement program. Management has increased rates 3% annually for the past five years and plans to undergo a rate study in 2010 affecting rates beginning in 2011. Management is maintaining high levels of both net working capital (288.2% of O&M) and unrestricted reserves (181.3% of O&M), allowing them considerable financial flexibility in the near term. Moody's believes that management's willingness to adjust rates as necessary to meet annual debt service requirements and high unrestricted levels of reserves are key factors in the rating upgrade.

KEY STATISTICS:

Number of water accounts (FYE 2008): 10,981

Number of wastewater accounts (FYE 2008): 12,862

Fiscal 2008 debt service coverage: 1.3x (6.26x revenue only coverage)

Payout of Principal in 10 Years: 64.4%

Fiscal 2008 Operating ratio: 87.2%

Fiscal 2008 Debt ratio: 20.1%

Outstanding revenue debt: \$3.125 million

RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating the current issue was "Analytical Framework for Water and Sewer System Ratings," which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action for the City of Wylie waterworks and sewer system was on September 19, 2002 when the Baa1 rating was assigned.

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