

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of The Raytown)
Water Company for an Order Authorizing) **File No. WF-2021-0427**
Issuance of Water Facilities Refunding and)
Improvement Bonds Series 2021)

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”) and for its Recommendation states as follows:

1. On November 23, 2021, The Raytown Water Company (“Raytown”) submitted an application, requesting authority to issue Water Facilities Refunding and Improvement Bonds through the Environmental Improvement and Energy Resources Authority (“EIERA”) not to exceed \$5 million at an interest rate not to exceed 3.25% per year.

2. On November 24, 2021, the Commission ordered Staff to file a recommendation regarding Raytown’s application by December 24, 2021.

3. On December 21, 2021, Staff requested and was granted an extension to file its recommendation no later than January 28, 2022.

4. Staff has reviewed Raytown’s application, as well as responses to various data requests, and has summarized its conclusion in its *Memorandum*, attached hereto as Appendix A, and incorporated by reference.

5. Section 393.200.1 RSMo 2020, provides, among other things, that a regulated water or sewer company may issue bonds “when necessary for the acquisition of property, the construction, completion, extension or improvement of its plant or system, or for the improvement or maintenance of its service...”

6. Updating the water metering system to Advanced Metering Infrastructure (“AMI”) by replacing all manually read meters with radio meters and other water service system maintenance and improvements constitutes “extension or improvement of its plant or system, or for the improvement or maintenance of its service.”

7. Staff concludes that the proposed transaction is not detrimental to the public interest, subject to the imposition of certain conditions as outlined in Staff’s *Memorandum*.

WHEREFORE, Staff recommends the Commission approve the application, subject to conditions outlined in Staff’s *Memorandum*, and grant such other and further relief as the Commission finds appropriate in the circumstances.

Respectfully Submitted,

/s/ Ron Irving

Ron Irving
Associate Counsel
Missouri Bar No. 56147
Attorney for the Staff of the
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Mo 65102-0360
(573) 751-8702 (Telephone)
(573) 751-9285 (Facsimile)
(Email) ron.irving@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand delivered, transmitted by facsimile or electronically mailed to all parties and/or counsel of record on this 28th day of January 2022.

/s/ Ron Irving

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WF-2021-0427, The Raytown Water Company

FROM: Randall Jennings, Financial and Business Analysis Division
Curt B. Gateley, Water, Sewer & Steam Department

/s/ Seoung Joun Won, PhD 1/28/2022 /s/ Ron Irving 1/28/2022
Financial & Business Analysis / Date Staff Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of The Raytown Water Company for Authority to issue Water Facilities Refunding and Improvement Bonds not to exceed Five Million Dollars (\$5,000,000.00).

DATE: January 28, 2022

1. (a) **Type of Issue:** Water Facilities Refunding and Improvement Bonds through the Environmental Improvement and Energy Resources Authority (“EIERA”).
- (b) **Amount:** Up to \$5,000,000.00.
- (c) **Rate:** The interest rate shall not exceed 3.25% per annum.
- (d) **Other Provision:** All bonds will mature on December 1, 2041, with interest to be paid on March 1, 2022, semi-annually thereafter and principal payments to be made on March 1, 2023, and annually thereafter. All accrued and unpaid interest and remaining balance of unpaid principal to be paid at maturity.
2. **Proposed Date(s) of Transaction:** Within Three (3) years of the date of the date of the Order of the Commission authorizing the issuance.
3. (a) **Statement of Purpose of the Issue:** The Raytown Water Company (“Raytown”, “Company”, or “Applicant”) proposes to use the proceeds to update its entire water metering system to Advanced Metering Infrastructure (AMI) by replacing all manually read meters with radio meters, upgrade meter wells as needed, install new data collectors, update metering software, make live metering information available to customers through its company website, purchase new trucks, replace the roof on its main office, install a back-up generator, construct a new garage to house company-owned vehicles and to pay the costs and expenses of the issuance of the bonds including the costs and legal expenses of this application and proceeding for authorization to issue the bonds.

(b) **Does Staff deem this Statement of Purpose of the Issue reasonable?**

Staff understands that the primary purpose of the additional debt would be to finance replacement of Raytown's current manual meters with AMI meters. During the previous rate case, it was identified that water loss was an issue that needed to be addressed by Raytown. Water can be 'lost' via leaks in the distribution system, from theft, and from inaccurate meters that are not correctly accounting for water use. Upgrading to a modern metering (and usage tracking) system is a reasonable and necessary action for improvement of lost revenue percentage, as well as reliability of the Raytown metering system. A small percentage of the Raytown system meters (~10%) are already converted to radio read technology. Those conversions occurred primarily in very high traffic areas where manual reading was very dangerous for company staff.

Once metering accuracy is improved, additional focus can be applied to reducing other sources of non-revenue water such as leaks that have not yet been detected. Receiving proper revenue for all water entering the distribution system is essential for the financial stability of any water company.

There are additional benefits to the Company's proposal. After the AMI meters are installed, the Company will see significant labor savings in elimination of most manual meter reading. Customers increasingly demand access to detailed, real time usage data for all utilities in order to have additional control over their bills. These meters also allow a utility company to alert customers to unusual usage changes, thereby making it possible for customers to rapidly identify leaks and protect property.

4. **Copies of executed instruments defining terms of the proposed securities:**

Such instruments have not been executed.

5. **Certified copy of resolution of the directors of applicant or other legal documents authorizing the issuance of the securities reviewed:**

Yes.

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes.

7. **Capital expenditure schedule reviewed:**

Yes.

8. **Journal entries required to be filed by Raytown to allow for the Fee Schedule to be applied:**

Yes.

9. **Recommendation of the Staff:**

Conditional Approval granted (see Comments and Recommended Conditions below).

COMMENTS:

The Raytown Water Company is a Missouri water corporation with its principal place of business at 9820 East 63rd Street, Raytown, Missouri 64133. The Applicant is in the business of the retail sale of water as a public utility in portions of the cities of Raytown and Independence, located in Jackson County, Missouri.

On November 23, 2021, Raytown submitted an application requesting authority to issue bonds in a principal sum not to exceed \$5 million. According to the 5-year capital expenditure plan, the proceeds will be used to update its entire water metering system to AMI by replacing all manually read meters with radio meters and other water service system maintenance and improvements, etc.¹

Staff applies the “not detrimental to the public interest” standard to financing applications. In reviewing requests for issuing financing agreements, Staff analyzes the requested amount as it relates to the stated uses to ensure the amount requested is reasonable, and whether it generally supports long-term capital investment. Additionally, Staff analyzes the cost effectiveness of the source of funds.

Important in Staff’s analysis of stated uses is determining whether the stated uses match the allowable purposes of investment in long-term capital, improvement and maintenance of service, and refunding of short-term and/or long-term obligations used for allowable purposes.² Staff analyzes the pro forma impact the requested financing may have on the company’s credit and financial risk. To analyze the impact of the requested financing on the company’s financial risk, Staff estimates the possible change in credit ratings due to the financing. Worsening credit ratings indicate increasing financial risk, and vice versa.

¹ Raytown response to Staff’s Data Request No. 0006.

² The allowable purposes of long-term financing authorization authorized by statute, MO Rev Stat Section 393.200.1, are listed in page 9 of Report and Order, issue date June 16, 2010, of case No. GF-2009-0450.

Raytown states in its Application on page 3, that the proceeds are to be used for:

(a) to update the entire water metering system to AMI by replacing all manually read meters with radio readers (as shown on Exhibit A attached hereto); (b) to upgrade meter wells as needed; (c) to install New data collectors; (d) to update metering software and make live metering information available to customers through the company website; (e) to purchase new trucks; (g) to replace the roof on the main office and install a back-up generator; (h) to construct a new garage to house company-owned vehicles (as shown on Exhibit D attached hereto); and (i) to pay the costs and expenses of the issuance of the bonds including the costs and legal expenses of this application and proceeding for authorization to issue the Bonds, all as more specifically set out in Exhibit C attached hereto.

Staff inquired if Raytown could use a more economical source of funding and asked Raytown for a cost comparison analysis between the cost of debts of the long-term debt in the Application and the cost of debt of other sources. Raytown stated it has used EIARA Bonds in the past, they have always proved to be an efficient funding source and that no other sources were sought.³ EIARA is a quasi-governmental environmental finance agency that is administratively assigned to the Missouri Department of Natural Resources (“DNR”).⁴ The EIARA Bonds are tax-exempt, which makes the cost of the bonds lower than if they were traditional taxable bonds because the investor does not require a higher return to offset the taxes normally due on investment income. According to the application, the interest rate on the EIARA Bonds is not to exceed 3.25%.

Raytown is not rated by any credit rating agency; therefore, Staff estimated the credit ratings using the benchmarks published in the September 18, 2012 Standard and Poor’s (S&P) article, “Criteria Methodology: Business Risk/Financial Risk Matrix Expanded” (“September 18, 2012 Criteria Methodology”) (*see* Attachment 1). In Staff’s reasonable judgement, Raytown’s business risk profile (“BRP”) is “Strong” as of September 30, 2021, under the criteria methodology. S&P classifies major water and sewer utilities in the “Excellent” BRP category, so it is reasonable to classify a small water and sewer utility like Raytown a notch lower. Raytown’s responses to requests for information indicated Raytown had no long-term debt as of September 30, 2021. Therefore, it is reasonable to assume Raytown’s financial risk profile (“FRP”) is “Minimal” as of September 30, 2021. Based on these business and financial risk profiles, Staff assigns an equivalent credit rating of approximately ‘AA’ for Raytown.

Staff evaluated the potential impact of Raytown’s proposed financing on its credit risk by estimating the possible change in Raytown’s credit ratings. After the pro forma

³ Raytown response to Staff’s Data Request No. 0011.

⁴ The Environmental Improvement and Energy Resources Authority, <https://eiera.mo.gov/>

adjustments, the Funds From Operations (“FFO”) to Total Debt and Total Debt to Total Capital ratios for Raytown are within the FRP range of “Aggressive,” and the Total Debt to Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) is within the FRP range of “Highly Leveraged”. Continuing with the assumption that Raytown has a “Strong” BRP, this would be consistent with a credit rating within the range of a ‘BB’ to ‘BB-’ for Raytown.⁵

The capital structure as of September 30, 2021 and pro forma (based on the issuance of the proposed bonds) are:

	<u>As of September 30, 2021⁶</u>	<u>Pro Forma 2022⁷</u>
Common Equity	88.05%	41.36%
Preferred Stock	11.95%	22.15%
Long-Term Debt	0.00%	36.49%

The impact of the proposed issuance of EIERA Bonds on Raytown’s financial risk profile is significant. However, according to the Staff Water, Sewer & Steam Department’s review of the metering issue, the proposed capital investment is a reasonable action to improve lost revenue percentage, as well as to increase the reliability and accuracy of the Raytown metering system. For this reason, Staff concludes that the Application is not detrimental to the public interest and Raytown’s rate payers because it allows Raytown to upgrade its aging infrastructure.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted by Raytown in this case because Raytown’s request is not detrimental to the public interest, subject to the following conditions:

1. That nothing in the Commission’s order shall be considered a finding by the Commission of the prudence of this transaction for rate making purposes, and that the Commission reserve the right to consider the rate making treatment to be afforded the financing transaction and its impact on cost of capital, in any later rate proceeding;

⁵ If a bond is rated BB or lower, then it is considered a high risk junk bond, Investopedia, <https://www.investopedia.com/terms/j/junkbond.asp>.

⁶ Raytown response to Staff’s Data Request No. 0002.

⁷ Raytown response to Staff’s Data Request No. 0003.

2. That the Company shall file with the Commission within thirty (30) days of issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of secured indebtedness issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance;
3. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
4. That the Company shall file with the Commission as a non-case related submission in EFIS under “Resources” - “Non-Case Related Query” - “Ordered Submission” any credit rating agency reports published on Raytown’s corporate credit quality or the credit quality of its securities;
5. That Raytown be required to file a five-year capitalization expenditure schedule in future finance cases, and;
6. That the Commission’s grant of authority shall expire three years from the effective date of the order in this proceeding.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of The Raytown)
Water Company for an Order Authorizing)
Issuance of Water Facilities Refunding and)
Improvement Bonds Series 2021)
Case No. WF-2021-0427

AFFIDAVIT OF RANDALL JENNINGS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW Randall Jennings and on his oath states that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

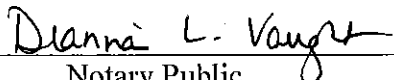
Further the Affiant sayeth not.



RANDALL JENNINGS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 27th day of January, 2022.



Notary Public

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: July 18, 2023 Commission Number: 15207377

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of The Raytown)
Water Company for an Order Authorizing) Case No. WF-2021-0427
Issuance of Water Facilities Refunding and)
Improvement Bonds Series 2021)

AFFIDAVIT OF CURT B. GATELEY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW Curt B. Gateley and on his oath states that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

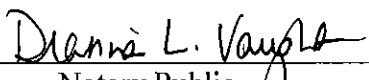
Further the Affiant sayeth not.



CURT B. GATELEY

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 28th day of January, 2022.



Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377



RatingsDirect®

Criteria | Corporates | General:

Methodology: Business Risk/Financial Risk Matrix Expanded

Criteria Officer:

Mark Puccia, Managing Director, New York (1) 212-438-7233; mark.puccia@standardandpoors.com

Table Of Contents

Business Risk/Financial Risk Framework

Updated Matrix

Financial Benchmarks

How To Use The Matrix--And Its Limitations

Related Criteria And Research

Criteria | Corporates | General: Methodology: Business Risk/Financial Risk Matrix Expanded

Table 1

Business And Financial Risk Profile Matrix (cont.)						
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes.

- The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. This range would ordinarily span one notch above and below the indicated rating.

Business Risk/Financial Risk Framework

- Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow.
- Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ. The categories underlying our business and financial risk assessments are:

Business risk

- Country risk
- Industry risk
- Competitive position
- Profitability/Peer group comparisons

Financial risk

- Accounting
- Financial governance and policies/risk tolerance
- Cash flow adequacy
- Capital structure/asset protection
- Liquidity/short-term factors

- We do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

Updated Matrix

- We developed the matrix to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. It illustrates the relationship of business and financial risk profiles to the issuer credit rating.
- We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings. Conversely, we place slightly more weight on financial risk for speculative-grade issuers (see table 1, again).
- This version of the matrix represents a refinement--not any change in rating criteria or standards--and, consequently,

Criteria | Corporates | General: Methodology: Business Risk/Financial Risk Matrix Expanded

borrowing to repurchase its stock. It is possible that the company may fall into the 'BB' category if we view its financial risk as significant. FFO to debt of 20% and debt to EBITDA of 4x would, in our view, typify the significant financial risk category.

17. Still, it is essential to realize that the financial benchmarks are guidelines, neither gospel nor guarantees. They can vary in nonstandard cases: For example, if a company's financial measures exhibit very little volatility, benchmarks may be somewhat more relaxed.
18. Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:
 - A view of accounting and disclosure practices;
 - A view of corporate governance, financial policies, and risk tolerance;
 - The degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
 - Various aspects of liquidity--including the risk of refinancing near-term maturities.
19. The matrix addresses a company's standalone credit profile, and does not take account of external influences, which would pertain in the case of government-related entities or subsidiaries that in our view may benefit or suffer from affiliation with a stronger or weaker group. The matrix refers only to local-currency ratings, rather than foreign-currency ratings, which incorporate additional transfer and convertibility risks. Finally, the matrix does not apply to project finance or corporate securitizations.

Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
 - Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
 - 2008 Corporate Ratings Criteria, April 15, 2008
20. These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.