



Rating Action: Moody's assigns Aa3 to Topeka Combined Utility Enterprise, KS's rev. bonds, Ser. 2023-A; outlook stable

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New York, August 07, 2023 – Moody's Investors Service has assigned a Aa3 rating to the City of Topeka, KS's estimated \$96.3 million Combined Utility Improvement Revenue Bonds, Series 2023-A. Moody's maintains the Aa3 rating on the outstanding combined utility revenue debt that is on parity with the Series 2023-A bonds (the "parity bonds"). Post-sale, the amount of outstanding parity bonds will total \$366.5 million. The outlook is stable.

RATINGS RATIONALE

The Aa3 rating incorporates the system's large and stable service area, strong liquidity, and planned rate increases to support new debt from the capital improvement plan. The rating also considers the narrowing but satisfactory debt service coverage, an elevated debt burden relative to peers that will remain because of a robust capital plan, and the system's affordable unfunded pension liability. Further, the rating incorporates the satisfactory bond covenants that include a debt service reserve fund funded at the standard 3-prong test and a 1.25x rate covenant and additional bonds test.

RATING OUTLOOK

The stable outlook reflects the expectation that conservative fiscal management and planned rate increases will maintain satisfactory coverage, and that liquidity will remain strong around current levels. Further, revenue growth from the rate increases will keep the debt to operating revenue ratio manageable but elevated because of future debt plans. However, material declines in debt service coverage or liquidity could lead to negative rating pressure.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Sustained and material increase in debt service coverage
- Significant moderation of debt burden

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Trend of declining debt service coverage
- Decreased available liquidity
- Material increase in leverage

LEGAL SECURITY

The Series 2023-A bonds are payable from the net revenues of the combined utility system.

USE OF PROCEEDS

The Series 2023-A bonds will finance various system improvements and fund a debt service reserve fund.

PROFILE

The combined utility system provides potable water service to the City of Topeka (Aa3) and surrounding areas, including six rural water districts and the airport. The combined utility system also provides wastewater and stormwater services to a population of about 155,000.

METHODOLOGY

The principal methodology used in this rating was US Municipal Utility Revenue Debt Methodology published in April 2022 and available at <https://ratings.moody.com/rmc-documents/386721>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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