

## City Of Sedalia: Water System Improvements

The city of Sedalia is the largest municipality in Pettis County and is the county seat. It serves as the retail hub near the heart of the nation, located 90 miles east of Kansas City and 120 miles north of Springfield. The City hosts one of the largest annual state fairs in the United States, with more than 400,000 people in attendance, and has been host since 1899.



### History Of The City's Water Department And System

Segments of the water distribution system mains in the City have been dated back before the time of the first state fair, with estimates that they were initially installed in the 1872-1887 timeframe. The City's first pumping facility was completed around 1872 at the current location of the water treatment plant and mains were first installed through parts of the City. In 1887, the City sold the water system to the Sedalia Water Company that expanded the distribution system. In 1915, a "modern rapid sand filtration plant" was constructed – the original filters and building are still used today.

While some improvements have been completed on various parts of the original system over the years, portions are in need of updates and improvements. Sections of some of the oldest water mains are in poor condition with reduced flow capacity and restricted water flow.

The parts of the City's water system that are more than 100 years old were identified to be in need of upgrades when a water distribution system study and improvement plan by Ponzer Youngquist, P.A., Inc., was completed in early 2017. This plan outlines the current needs of the system and a phased approach to fund the upgrades, primarily through water rate increases.

### Addressing The Needs Of The System

The City has been working with Stifel and Ponzer Youngquist, P.A., Inc., since June of 2016 toward the goal of identifying water system needs and establishing a source of repayment for the identified projects. Since this time, numerous meetings have been held with management and the board of public works to determine the desired approach to fund the capital needs and to help modernize the system while maintaining service to the City's customer base in a cost-effective manner.

The first phase of this project will replace and upsize more than 9.7 miles of water mains throughout the City and will include related fire hydrant replacements, as well as paying for a water tower renovation. These identified projects total approximately \$12.5 million and are the first phase of items to be addressed. The specific list of projects to be completed

is very extensive. The first phase will address the immediate needs of the system with additional phases to be funded in the coming years.

A comprehensive rate study was conducted and several options were discussed with management and the public works board. Funding of the first phase of the project will be completed with water rate increases to the monthly service charges for residential customers in the amount of approximately \$3 per residential connection within the City each month. This service charge increase will be implemented in the 2019 fiscal year and equates to an increase of 15 percent of overall revenues. The rate study indicated that an additional rate increase of approximately 10 percent will be necessary the following year to preserve adequate capital projects and repairs. The board took this stepped approach to the total increase as a means to help customers adjust their budgets over time rather than all at once. Adequate current reserves allowed the board this flexibility.

## Bond Process

After the project phases had been determined, the financing team worked with the water department and the City to move towards a certificates of participation sale to fund the first phase. The board of public works decided to proceed with 25-year financing in order to minimize the annual debt service repayment and the overall water rate impact. Debt service repayment was structured with an interest-only payment for the first year and level debt each year thereafter.

The City pursued an underlying rating from Standard & Poor's Global Ratings (S&P) and secured a rating upgrade to "A+" for the City's certificates of participation. This rating upgrade was due to the City's strong management of its budget and the addition of formalized financial policies and practices. The improved credit quality directly resulted in savings each year by lowering the cost of borrowing. While the size of the certificates of participation issuance was for approximately \$13 million, total orders were received for \$32 million – this oversubscription (more orders than certificates available) allowed the City to lower interest rates by more than five basis points (0.05 percent) that equates to approximately \$100,000 in interest savings over the life of the certificates. The total project fund deposit for the first phase was for \$12.6 million and the closing took place on March 27, 2018.

The board of public works can now proceed with bidding out the project and begin the upgrades to the water system.

## Economic Development

The water system improvements will help ensure that the system is kept up to date and will allow for additional economic development in and around the City. By maintaining and improving the water system, the City is able to remain competitive with local and regional municipalities when looking at new opportunities for corporations to invest in and around the City.

The city of Sedalia has recently announced a new location for Nucor, a producer of steel and related products, and a \$250 million capital investment for a steel rebar micro-mill. This new development will create more than 250 full-time jobs with an average salary of \$65,000, according to Nucor.

It is also estimated that there will be an additional 150 jobs created by suppliers and downstream processors to support the expansion, bringing the total new jobs to the community to approximately 400. New jobs created in the coming months will bring new customers for the water system. New construction for housing may also increase to house the additional workers in the area.

This economic development in the region will bring additional revenues to the water system and to the City that will benefit from additional sales tax revenues among other revenue increases.



Missouri State Fair

“This is an overdue project that we simply had to find a way to make it work,” said City Administrator Kelvin Shaw. “We were able to craft a way to get it done while minimizing the impact on the rate payers.”

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