

Revenue
New Issue

Seacoast Utility Authority, Florida

Ratings

New Issues

Water and Sewer Utility System Revenue Bonds, Series 2009A	A+
Water and Sewer Utility System Revenue Bonds, Series 2009B (BABs)	A+

Outstanding Debt

Water and Sewer Utility System Revenue Bonds, Series 1989A	A+
Water and Sewer Utility System Revenue Bonds, Series 2001	A+

Rating Outlook

Stable

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New Issue Details

Sale Information: \$8,855,000 Water and Sewer Utility System Revenue Bonds, Series 2009A, and \$69,315,000 Water and Sewer Utility System Revenue Bonds, Series 2009B (BABs), scheduled to sell via negotiation the week of Sept. 30.

Purpose: To pay costs of the 2009 project, make a reserve fund deposit, and pay costs of issuance.

Final Maturity: 2039.

Related Research

- *2009 Median Ratios for Water and Sewer Revenue Bonds — Retail Systems, Jan. 28, 2009*
- *2009 Water and Sewer Sector Outlook, Jan. 12, 2009*
- *Water and Sewer Revenue Bond Rating Guidelines, Aug. 6, 2008*

Rating Rationale

- The Seacoast Utility Authority's (the authority) financial performance in terms of debt service and liquidity has been healthy; while debt service coverage is projected to slightly decline with this additional debt, liquidity is anticipated to remain strong.
- Leverage ratios are mixed but should decline to more favorable levels as no other debt issuances are planned for the next five years.
- Rates are affordable with room for projected increases. In addition, rate indexing may be implemented in October 2010, which would allow the authority's rates to keep pace with inflation.
- The service area is economically very stable and diverse.

Key Rating Drivers

- Rising capital and operating costs could pressure rate affordability.

Credit Summary

The 'A+' rating reflects the authority's good financial performance, above-average leverage amounts, and affordable rates, as well as the economically stable and diverse service area. Debt service coverage is expected to decline as a result of rising fixed costs from this issuance, but liquidity should remain strong. Medium-term capital needs appear manageable, which will limit further pressure to the authority's operating performance.

For fiscal 2008, senior lien annual debt service (ADS) was a solid 2.3x. However, with this issuance, ADS coverage is expected to decline to the 1.5x range over the next five fiscal years. While the decline marks a shift from the historical coverage trend, other financial metrics remain favorable. Liquidity for fiscal 2008 was very good with nearly 470 days cash on hand and is expected to remain stable, or even improve, over time. In addition, the authority's cash flows are good, generating full cost recovery of service.

The authority's five-year capital improvement program (CIP) totals \$93 million, the majority of which will be funded from this transaction. The bulk of the CIP is devoted to construction of a new water treatment facility, which will improve the quality of water delivered. The new plant also will provide a more efficient alternative for the renewal and replacement of aging infrastructure, produce a recyclable byproduct, and allow for the treatment of brackish Floridan aquifer water (a potential new source of supply for the authority). Despite the size of the current offering, authority debt levels compare favorably to similarly rated credits and should continue to perform well over the five-year horizon, as no additional borrowings are planned.

The authority's water and sewer rates have been raised as needed, and proposed fiscal 2010 rates call for roughly a 10% increase to the combined monthly bill (based on water and sewer usage of 10,000 and 6,000 gallons per month, respectively). Despite the proposed increase, rates remain affordable at just 1.0% of median household income. The authority has indicated that it may begin indexing rates in 2010, which would allow for more uniform rate hikes at inflationary levels.

Rating History

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	9/9/09
A+	Assigned	Stable	11/5/01

The Seacoast Utility Authority (the authority) was established in 1988 when it acquired the assets of a private water and wastewater utility. The authority was created by an interlocal agreement among Palm Beach County, the city of Palm Beach Gardens, the village of North Palm Beach, and the towns of Juno Beach and Lake Park. The 65-square-mile service area in northeastern Palm Beach County, including a part of the county’s unincorporated areas, is predominantly residential with no revenue concentration. Economic prospects for the authority are favorable due to low unemployment rates and high wealth levels.

Legal Provisions

Security: The bonds are secured by a pledge of net revenues and investment income. A two-part rate covenant and an additional bonds test allow for connection and other fees, along with investment income, to be included if coverage reaches a somewhat higher level.

Rate Covenant: The authority covenants to fix rates, fees, and charges, such that one of the following occurs: 1) net revenues (exclusive of guaranteed revenues, connection charges, and capital payments and inclusive of 75% of nonconstruction fund investment income) equal 105% of annual first lien debt service and 100% of junior lien debt service after 100% of the amounts required by the bond ordinance are deposited into the reserve fund and the renewal and replacement fund. The minimum increases to 120% of annual first lien debt service when guaranteed revenues, connection charges, capital payments, and the remaining 25% of nonconstruction fund interest income are included; or, 2) net operating revenues (exclusive of guaranteed revenues, connection charges, and capital payments and inclusive of 75% of nonconstruction fund investment income) equal 110% of annual first lien debt service and 100% of annual junior lien debt service after 100% of the amounts required are deposited into the reserve fund and the renewal and replacement fund.

Additional Bonds Test: One of the following requirements must be met for parity bonds to be issued: 1) net operating revenues for the previous two fiscal years (exclusive of capital payments, guaranteed revenues, connection charges, and all investment income) equal 105% of maximum annual debt service (MADS) on all first lien obligations and 100% of MADS on all junior lien obligations for the next five years after 100% of the amounts required are deposited into the reserve fund and the renewal and replacement fund. The minimum increases to 120% of the highest annual senior lien debt service when guaranteed revenues, connection charges, all investment income, and capital payments are included; or 2) net operating revenues for the previous two fiscal years (exclusive of capital payments, guaranteed revenues, connection charges, and all investment income) equal 110% of MADS on all first lien obligations and 100% of MADS on all junior lien obligations for the next five years after 100% of the amounts required are deposited into the reserve fund and the renewal and replacement fund.

Debt Service Reserve Fund: The required reserve is the maximum debt service requirement for all outstanding first lien obligations.

Flow of Funds

All system revenues are deposited into the revenue fund and transferred to various funds and accounts for payments in the following order:

- For payment of operations and maintenance expenses as they become due.
- For payment of debt service requirements of parity obligations.
- For the maintenance of a senior debt reserve.

- To replenish any renewal and replacement fund deficiency.
- For any lawful system purpose related to the utility system.

Water System

The water system serves roughly 47,000 residences and 3,000 nonresidential customers.

Water is derived from four well fields — the Hood Road well field, Lilac Street well field, and Richard Road well field. Water treatment facilities consist of two lime softening treatment plants, the Hood Road water treatment facility and Richard Road water treatment plant (WTP), which have a combined capacity of 30.5 million gallons per day (mgd). The series 2009 bond proceeds will be used to replace the Hood Road WTP with a nanofiltration/reverse osmosis plant and demolish the existing lime softening plants at the Hood Road and Richard Road sites. The authority also plans to construct three Floridan aquifer wells (a request for aquifer withdrawal authorization is planned for 2010); a raw water main connecting the Richard Road, Lilac Street, and Hood Road facilities; raw water booster pumping facilities; and additional storage tanks.

The South Florida Water Management District (SFWMD) believes the authority's historic pumpage from the Hood Road well field caused harm to the wetlands surrounding the well field. SFWMD also indicated that the authority's Hood Road well field may be responsible for bank erosion in a storm water control lake located in a development near the Hood Road well field, the Bent Tree development. The harm equates to approximately \$2.2 million in total damages. The authority disputes both SFWMD allegations and believes that, at most, it could be responsible for mitigating approximately 2.5 functional loss units for \$250,000 in combined historic and future losses. The authority anticipates SFWMD action by the end of 2009.

Wastewater System

The wastewater system consists of a 20-mgd regional water reclamation facility, the PGA Wastewater Treatment Plant (WWTP), located in Mirasol; a sewage collection system; and a reclaimed water system. The system provides wastewater service to approximately 31,000 customers. Close to 100% of the recycled water is used by 33 large-volume users, and the minimal unused effluent is disposed of through a deep injection well. The authority completed its PGA WWTP reclaimed water system improvements in August 2007 to remain in full compliance with current regulations on effluent disposal.

Rates and Finances

The authority sets rates without the oversight of any outside public agency. Charges are billed monthly and include a base facility charge and a commodity charge. The base facility charge is a fixed monthly charge traditionally kept high as a percentage of a customer's total water bill and is designed to cover most fixed costs, such as renewal and replacement, payroll expenses, and insurance. The commodity charge is designed to recover variable operating costs and is based on a three-tiered structure that increases with increasing consumption.

Water rates have been raised at an average of 7% over the past five years. Rates are projected to increase 7% in fiscal 2010 due to reduced water demand, slower growth, escalating costs, and debt service payments. Sewer rates are projected to increase 14% in fiscal 2010. No further rate hikes are anticipated over the forecast period. The authority has indicated that it may begin indexing rates in 2010, allowing for more uniform rate hikes at inflationary levels.

Financial performance has been good, as evidenced by senior lien ADS of 2.3x in fiscal 2008. With this series 2009 issuance, senior ADS is expected to decline to an

average of about 1.5x over the next five fiscal years. Liquidity is very good with days cash on hand averaging 467 days over the fiscal years 2004–2008 period. Similarly, days working capital averaged 467 days over the same period. Given that approximately 81% of the CIP is debt-funded, liquidity is expected to remain equally strong over the next five fiscal years.

Capital Improvement Program and Debt

The authority's five-year CIP for the utility system through fiscal 2014 totals \$93 million. The bulk of the plan is devoted to the Hood Road Membrane Conversion Project, which will improve the quality of the authority's drinking water. The new plant will provide a more efficient alternative for renewal/replacement of aging infrastructure, make treatment of brackish Floridan aquifer water possible, and produce a recyclable treatment byproduct. The 7.5-mgd Richard Road WTP will be abandoned, and the existing 23-mgd Hood Road WTP will be replaced with a 30.5-mgd finished water membrane treatment facility. The project is estimated to be complete by 2013.

The debt-to-net plant assets ratio was high in fiscal 2001 at 71%, but the ratio is now at a favorable 34%. Debt per capita is high at \$667 but is projected to be more in line with the 'A' rating category medians at \$873 within five fiscal years. Current and projected debt per customer is very favorable and below the 'A' category medians.

The authority issued variable-rate bonds in 2005 and 2006, of which \$9.9 million and \$9.3 million, respectively, are currently outstanding (Fitch Ratings did not assign an underlying rating to either of these bond series). The authority entered into interest rate swap agreements with Bank of America, N.A. for both series of bonds. As of Sept. 30, 2008, the swaps had a negative fair value of \$526,270 and \$412,812 for the series 2005 and 2006 bonds, respectively. The bonds and related swap agreements mature on March 1, 2019 and March 1, 2018 for the series 2005 and 2006 bonds, respectively.

Service Area

The authority is located on the southeastern coast of Florida, in the northeast portion of Palm Beach County (water and sewer revenue bonds rated 'AAA' by Fitch). The service area includes the city of Palm Beach Gardens, village of North Palm Beach, town of Lake Park and portions of unincorporated areas of Palm Beach County, and town of Juno Beach. The 2008 estimated population was 95,000, and the most recent unemployment rate of 7.1% for July 2009 remains below state and national levels.

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