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Summary:
Seacoast Utility Authority, Florida; Water/Sewer

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Table Of Contents

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Credit Profile		
Seacoast Util Auth rev bnds ser 2009		
Long Term Rating	AA-/Stable	Upgraded
Seacoast Util Auth wtr & swr util sys rfdg rev bnds		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services has raised its long-term rating on the Seacoast Utility Authority (SUA), Fla.'s utility system revenue bonds to 'AA-' from 'A+'. The outlook is stable.

The upgrade reflects our view of consistently strong debt service coverage (DSC) and improved and strong liquidity position, which we expect to continue.

The ratings reflect our assessment of the system's:

- Participation in the economically diverse and affluent Palm Beach County, providing a relatively stable and very diverse customer base;
- Very strong financial position, with historically strong DSC and liquidity;
- Good rate flexibility due to rates we consider affordable relative to service-area wealth levels that we consider generally strong;
- Manageable capital needs that require no bonding; and
- Adequate water and wastewater treatment capacity.

We believe that offsetting these strengths are the potential for lower coverage due to an increase in operating expenses due to a new water plant coming online this year; and our expectation of lower, although still strong, liquidity position from cash funding some system capital needs.

A pledge of the water and sewer systems' net revenues and connection charges secures the bonds.

SUA is a regional water and wastewater utility encompassing about 65 square miles in Palm Beach County, consisting of five members. The authority provides retail water and sewer service to approximately 92,000 residents in the member governments, which include incorporated areas of Palm Beach County, the City of Palm Beach Gardens, the Village of North Palm Beach, and the towns of Lake Park and Juno Beach. The area's economy is deep and diverse, in our opinion, and is part of the West Palm Beach-Boca Raton metropolitan area. Wealth levels in the area vary depending on the municipality, but tend to be levels we consider strong. Within the county itself, 2011 the median household effective buying income (EBI) measured 107% of the national average and per capital EBI is 128% of the national level, levels we view as strong. Unemployment rates also vary somewhat, depending on the municipality. The

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county's overall unemployment rates, however, have historically been above average. In 2011, county unemployment was at 10.8%, compared with 10.5% for the state and 8.9% for the U.S. According to the Bureau of Labor Statistics, as of October 2012, the county's unemployment was 8.6%, still higher than state (8.5%) and national (7.5%) averages.

An interlocal agreement with the authority's five member governments governs the authority. The agreement establishes rates, quality standards, and SUA as the exclusive supplier of water and sewer service to its member governments. The authority does not sell water directly to the member governments, but rather to the individual customers within these municipalities on a retail basis. There is no concentration in the customer base. The 10 leading customers represent 5.1% of revenues, which we consider very diverse.

SUA has seen slow and steady growth in customers, in a service area that is nearly built out. From fiscal years 2008-2012, the number of water customers has increased to 34,908 in 2012 from 34,563 in 2008, while the number of sewer customers has increased to 30,906 in 2012 from 30,636 in 2008. The majority of customers are residential. Approximately 84% (29,475) of the 34,908 water customers in fiscal 2012 were associated with single family dwellings, followed by nonresidential customers (8%) and multifamily dwellings (7%). This is also the case on the sewer side. Approximately 86% (26,633) of the 30,906 sewer customers in fiscal 2012 were associated with single family dwellings, followed by multifamily dwellings (8%) and nonresidential customers (6%).

We consider SUA's financial performance to be strong. From fiscal years 2009-2011, DSC, not including connection and impact fees, has ranged from 1.6x-2.1x; and 1.8x based on unaudited 2012 results. However, as a result of a new water plant coming online this year and the authority deciding not to allow the automatic indexing of its rates this fiscal year, DSC is budgeted to drop slightly below 1.5x, not including connection fees, and more than 1.5x with. We also consider SUA's liquidity position as strong historically, and increasingly stronger in the past few years. Fiscal year-end (Sept. 30) unrestricted cash and investments balances increased from $13.2 million in fiscal 2009 to $50.3 million from fiscal 2011, providing 236 days' to 866 days' cash on hand. This is well above the authority's cash reserve policy that requires it to maintain a minimum of cash reserves equal to 90 days of budgeted operating expenses and debt service requirements. We expect the authority's liquidity position to remain strong, though it plans to use some of its cash to fund capital needs. As of Nov. 30, 2012 management reported an unaudited unrestricted cash and short-term balance of $49.6 million.

Rates are set by ordinance that SUA's board enacts, and are not subject to regulation. The board approved a full rate change effective Oct. 1, 2009, and allowed for indexing on that rate structure each year, which the board approves at the same time as the acceptance of the authority's annual budget. Subsequently, the authority has demonstrated a willingness to adjust rates. More specifically, on Oct. 1, 2009, SUA's overall rate structure increased more than 20%, followed by a 6% index increase Dec. 1, 2010, then a 3.9% index increase Oct. 1, 2011. The authority's fiscal 2013 budget, however, does not assume a rate increase. Because the rate structure provided sufficient revenue and expenses to fund all necessary costs and maintain cash balances well in excess of the required amounts required under its cash reserve policy, the board elected not to index rates effective Oct. 1, 2012. We consider the authority's combined (water and sewer) rates at $61.65 monthly for 7,500 gallons usage. We view this as affordable relative to service area wealth levels, which we generally view as strong. Officials believe their rates fall in the midrange for the area.

SUA's sewer system has adequate capacity, in our opinion, with a total treatment capacity of 12.0 million gallons per day (mgd) compared with an average daily flow for fiscal 2012 of 8.0 mgd. Although the authority reported a max daily flow in fiscal 2012 of 13.1 mgd as a result of a major rain event they incurred no fines. We also consider the water side's capacity adequate with a total treatment capacity of 30.5 mgd, compared with fiscal 2012 average daily demand of 16.3 mgd and max daily demand of 20.9 mgd. SUA's installed capacity and firm capacity of its wells are 46.7 mgd and 47.8 mgd, respectively. Management reports that the authority's water and wastewater treatment facilities are in full compliance with all the regulations and guidelines.

Management reports that SUA resolved its protection-of-wetlands issue with the South Florida Water District (SFWD) in May 2012, whereby the authority agreed to invest $3.4 million (of which $500,000 will be paid from a grant SWFD granted to it) in equipment to recycle water. A little more than $2 million has already been spent, funded from draws on the authority's cash reserves. In October 2012, a 20 year South Florida Water Management District permit was issued. The permit allocates sufficient surficial and Floridan aquifer water to produce 21.1 million gallons per day of finished water, which management reports is 29.4% more than current demand and 17.5% more than five-year projected demand per University of Florida Bureau of Economic Business and Research.

We consider the authority's capital plans manageable. Its capital improvement program for fiscal years 2013-2018 totals $60.4 million, of which 71% is for replacing assets, 22% expansion, and 7% acquiring new assets. Management plans to fund these capital needs from operations and cash reserves.

As of Sept. 30, 2012, SUA had $126.9 million of debt outstanding, of which 15%, or $19.2 million (privately placed series 2005 and 2006 refunding bonds), is variable rate debt that is 100% synthetically fixed with two Bank of America N.A. floating-to-fixed rate swaps. We consider the authority's leverage moderate with a debt-to-plant ratio of approximately 50%.

SUA has two interest rate swaps outstanding that related to two private placed loans that Bank of America purchased directly. The notional amount on the swaps equals the principal outstanding on the 2005 and 2006 commercial loans. As of Sept. 30, 2012, principal outstanding for the 2005 and 2006 commercial loans was $9.9 million and $9.3 million, respectively. As of Sept. 28, 2012, the mark-to-market value for the authority's swaps was $2.6 million, not in the authority's favor. SUA has no plans to terminate the swaps. We consider the contingent liability risk low for these loans and swaps because we view the potential for potential liquidity events to be limited or remote.

Outlook

The stable outlook reflects our expectation that the authority will adjust rates as need to maintain strong DSC and liquidity. We don't expect to raise or lower the rating within our two-year outlook period.

Related Criteria And Research

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor’s Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

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