

**Fitch Upgrades Seacoast Utility Authority, FL's Water & Wastewater Ref Revs 'AA+'; Outlook Stable**

Fitch Ratings-Austin-7 August 2018: Fitch Ratings has upgraded the ratings on the following Seacoast Utility Authority (the authority) revenue bonds to 'AA+' from 'AA':

--Approximately \$135M water and sewer revenue bonds, series 1989A, 2009A, 2009B (BABs), 2016A, and 2016B

The Rating Outlook has been revised to Stable from Positive.

**SECURITY**

The bonds are secured by a first-lien pledge of net revenues of the authority's water and sewer system (the system) and investment income.

**KEY RATING DRIVERS**

**UPGRADE DRIVEN BY IMPROVED FINANCIALS:** The upgrade is driven by the system's continuous improvement in its financial profile, as debt service coverage and days cash on hand have both grown since Fitch's last review. The system's profile is expected to remain stable, as forecasts point to coverage in line with historical norms.

**RAPIDLY DECLINING DEBT PROFILE:** Current debt metrics are temporarily elevated due to the issuance of 2016A&B bonds, which will be used to crossover refund the 2009B bonds. Debt metrics align with 'AA' medians, but projected debt metrics will significantly improve after the 2020 crossover date. Very rapid amortization is expected to allow the system to be debt free after fiscal year 2024.

**HEALTHY RATE FLEXIBILITY AND AFFORDABILITY:** Rates remain very affordable and provide ample financial flexibility to the authority. Rates automatically adjust annually by the consumer price index change.

**SOLID SYSTEM INFRASTRUCTURE:** Recent facilities upgrades and expansion of wells provide the system with sufficient water supplies and treatment capacity to meet demand requirements until build out, which is expected in the next ten to fifteen years. Ongoing capital needs are expected to be manageable and consist primarily of routine renewal and replacement of assets.

DIVERSE SERVICE AREA: The economic base of the service area is very stable and diverse and characterized by high wealth levels.

#### RATING SENSITIVITIES

MAINTENANCE OF SOUND FINANCIAL POSITION: The system's ability to maintain strong financial results and sufficient liquidity while cash funding its capital plans will be key in maintaining the strong rating.

#### CREDIT PROFILE

The authority was established in 1988 when it acquired the assets of a private water and wastewater utility. Created by an inter-local agreement between 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 authority provides retail water and sewer service to a 65 square-mile service area in northeastern Palm Beach County and serves a little over 100,000 people.

#### ROBUST FINANCES

The upgrade is driven by the system's continued strong financial performance, supported by rate increases, customer growth, and a strong economy. Coverage remains healthy, yielding 2.5x the past two years and 2.3x - 2.4x excluding connections fees. Furthermore, days cash on hand has consistently been solid, averaging over 1,000 days the past five years.

The forecast points to stable coverage moving forward, as annual debt service costs remain steady in the \$12-\$14 million range. Management's forecasts have typically been conservative, as debt service coverage (DSC) of 2.5x in fiscal year 2016 and fiscal year 2017 beat projected results of 1.9x and 2.2x in previously provided forecasts.

#### FAVORABLE DEBT PROFILE

Debt metrics have increased year-over-year due to the 2016A&B bonds issued in order to traditionally refund and crossover refund the 2009A and 2009B bonds, respectively. Current debt per customer is in line with 'AA' median, yielding about \$2,100. However, projected debt per customer registers at roughly \$330 due to the crossover refunding in 2020 as well as

quick amortization. Debt to funds available for debt service is strong and in line with 'AAA' median, equating to about 3.9x in fiscal year 2017. All bonds mature in 2024.

#### AMPLE RATE AFFORDABILITY

Rates maintain flexibility and affordability, registering 1.1% of median household income (MHI) and well below Fitch's 2% MHI affordability threshold. Fitch views the authority's rate structure and flexibility as positive credit factors. Rates are structured with a substantial fixed component which provides for stable revenue to support operations. The authority also has a history of raising water and sewer rates as needed and is expected to continue to adjust rates annually by the consumer price index.

#### HEALTHY SYSTEM AND SUPPLY

The authority recently completed construction of a new water treatment plant with 30.5 million gallons per day (mgd) capacity to replace two existing plants. Treatment plant capacity exceeds the 2017 demand of 19 mgd (committed and in use) by approximately 38%.

The system is expanding its water supply with two new Floridian aquifer supply wells under design and construction and one new surficial aquifer water supply well under construction. As presently permitted, these are all backup wells limiting aggregate wellfield withdrawals to an amount sufficient to meet projected water supply demand through the year 2032 of 23 mgd.

Capital expenditures focus on renewal and replacement, and there are no significant new projects in the ten to fifteen year time horizon, per management. This is expected to allow the authority to cash fund its capital plans via pay-go, with no additional debt issuances expected. Cash balances and yearly free cash are robust, and consequently cash funding capex should not pressure the system.

#### STABLE, WEALTHY SERVICE TERRITORY

The system provides retail service to over 35,000 and 31,000 water and wastewater connections, respectively, with the majority being residential connections. Economic prospects within the authority service area are favorable due to low unemployment rates and high wealth levels.

Contact:

Primary Analyst  
Asim Kapadia  
Analyst  
+1-512-215-3727  
Fitch Ratings, Inc.  
111 Congress, Suite 2010  
Austin, TX 78701

Secondary Analyst  
Teri Wenck  
Director  
+1-512-215-3742

Committee Chairperson  
Doug Scott  
Managing Director  
+1-512-215-3725

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.