

## ISSUER COMMENT

22 July 2019

### RATING

#### Revenue <sup>1</sup>

Aa1 No Outlook

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## Seacoast Utility Authority, FL

### Annual Comment on Seacoast Utility

#### Issuer Profile

Seacoast Utility provides water and sewer service to Palm Beach County, Florida. The county has a population of 1,426,772 and a moderate population density of 723 people per square mile. The county's median family income is \$71,519 (2nd quartile) and the May 2019 unemployment rate was 3.1% (2nd quartile) <sup>2</sup>. The Authority receives portions of its raw water supply from a bunch of surficial aquifer wellfields and the rest from the Floridan Aquifer deep wells, treats it at its own plant and distributes via a series of water mains. The wastewater system collects via a network of gravity sewer lines, manholes, force mains and wastewater pump stations and transmits the wastewater to its treatment plant for treatment.

#### Credit Overview

Seacoast Utility has a very high quality credit position, and its Aa1 rating is above the US water and wastewater systems median of Aa3. The key credit factors include a very wealthy service area, a moderately sized system size and ample liquidity. It also reflects an exceptionally low debt profile and healthy debt service coverage.

**System Characteristics:** Seacoast Utility's system profile is exceptionally strong overall and is slightly favorable when compared to the Aa1 rating assigned. The median family income equals a robust 217.2% of the US level. In addition, the system size, measured as operating and maintenance expenses (\$25.2 million), is favorably above the US median.

**Financial Strength:** The financial position of Seacoast Utility is strong and is relatively favorable in comparison to its Aa1 rating. The days cash on hand (1,045 days) is excellent and greatly exceeds the US median, and it has increased significantly between 2014 and 2018. Additionally, the debt to operating revenues (1.9x) is roughly equivalent to other Moody's-rated water and wastewater systems nationwide. Lastly, the coverage of the annual debt service by net revenues (2.2x) is solid and consistent with the US median.

**Legal Provisions:** Legal provisions, which typically include a rate covenant requiring a minimum of 1.0x coverage of debt service, are adequate for this sector.

#### Sector Trends - Florida Water and Sewer

Water, sewer and storm water systems in Florida tend to be well-maintained and are in line with the national average with respect to asset condition, yet still need ongoing maintenance. Financial metrics are generally stronger than US medians. Both median debt service coverage (2.5 times) and median liquidity (535 days cash) are of Aaa-caliber quality. Utilities have an average median debt to operating revenues (2.1 times) than the national median. Water supply in Florida is constrained, and many water utilities face

supply constraints in the near to medium term. Florida utilities have unlimited rate-setting autonomy, which supports stability in financial operations.

## EXHIBIT 1

Key Indicators <sup>3 4</sup> Seacoast Utility

Credit Metrics	2014	2015	2016	2017	2018	US Median	Credit Trend
Annual Debt Service Coverage (x)	3.31x	2.27x	2.51x	2.46x	2.18x	2.30x	Weakened
Days Cash on Hand (Days)	885	1,022	1,156	1,066	1,045	440	Improved
Debt to Operating Revenues (x)	2.1x	1.9x	1.6x	2.0x	1.9x	1.9x	Stable
Median Family Income (% of US Median)	219%	227%	234%	217%	217%	91%	Stable
Remaining Useful Life of Capital Assets (Years)	23	16	15	15	15	27	Weakened

Debt and Financial Data (\$000s)	2014	2015	2016	2017	2018	US Median
Net Funded Debt	\$97,657	\$90,740	\$84,396	\$110,196	\$102,889	\$47,783
Total Revenues	\$48,274	\$51,110	\$54,453	\$57,900	\$58,456	\$29,141
Operating and Maintenance Expenses	\$22,660	\$21,820	\$22,271	\$22,560	\$25,188	\$16,759
Net Revenues	\$25,614	\$29,290	\$32,183	\$35,340	\$33,268	\$12,262
Debt Service	\$7,732	\$12,903	\$12,805	\$14,390	\$15,268	\$5,182

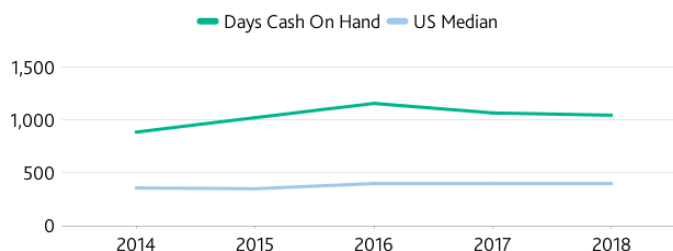
  

Governance/Legal Provisions	Score
Rate Management	Aa
Regulatory Compliance and Capital Planning	Aa
Rate Covenant	Baa
Debt Service Reserve Requirement	Aa

Source: Moody's Investors Service

## EXHIBIT 3

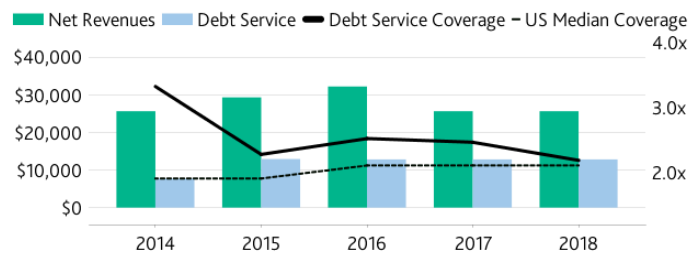
## Days cash on hand has increased from 2014 to 2018



Source: Moody's Investors Service

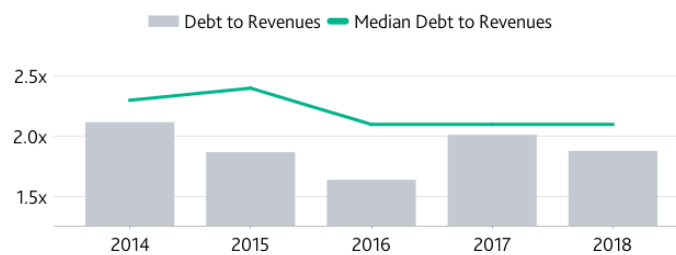
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EXHIBIT 4

**Debt service coverage decreased from 2014 to 2018**

Source: Moody's Investors Service

EXHIBIT 5

**Debt to operating revenues decreased from 2014 to 2018**

Source: Moody's Investors Service

**Endnotes**

- 1 The rating referenced in this report is the rating of the senior most lien on the relevant pledged revenues. Some utilities have bonds separately secured by distinct revenue sources. For these utilities, the rating referenced in this report is the senior most rating only on the relevant revenue pledge (e.g., water); the utility could have a higher rating on a different type of revenue bond (e.g., sewer).
  - 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 3 Moody's calculations of various statistics can be different than calculations reported in audited financial statements or offering documents. Moody's makes standard adjustments to reported financial data, to facilitate comparisons across issuers. For definitions of the metrics in the Key Indicators Table, see our [US Municipal Utility Revenue Debt](#) methodology.
  - 4 The medians come from our most recently published report, [Medians - Solid financial metrics, ability to raise rates underpin stable sector](#).

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