

# RatingsDirect®

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## Summary:

# Fort Pierce Utility Authority, Florida; Combined Utility

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### Credit Profile

#### Fort Pierce Util Auth util rfdg rev bnds ser 99A

*Unenhanced Rating*

A(SPUR)/Stable

Affirmed

## Rationale

S&P Global Ratings has affirmed its 'A' rating on Fort Pierce Utility Authority (FPUA), Fla.'s combined utility revenue bonds. The outlook is stable.

The higher rating reflects stronger financial metrics that we view as sustainable. Management has reduced operating costs and expects to fund capital investment from revenue.

The rating reflects our view of the following credit strengths:

- An all-requirements contract for purchased power from the Florida Municipal Power Agency (FMPPA) that reduces operating risk;
- Strong historical coverage of fixed costs (debt service and an imputed share of purchased power costs) by net available revenue after transfers to the City of Fort Pierce's general fund, which has been in the 1.35x-1.39x range over the past four years.
- Liquidity measured a 141 days of operating expenses in 2015, a level that we consider strong, particularly in consideration of the limited operating risk associated with an electric distribution; and
- Moderate capital needs that the utility expects to largely fund with cash from operations or grants.

Management's projection of thinner coverage metrics and liquidity over the next several years serve to mitigate our view of these credit strengths, while the FPUA's weak demographic profile (low average wealth levels and high unemployment rates), and above-average rates constrain revenue-raising flexibility and also serve to restrain credit improvement.

We have assigned the FPUA a business risk profile score of '5' on a scale of '1' to '10', with '1' being the strongest. What we view as limited operating risk associated with being an all-requirements customer of FMPPA as helping to mitigate weaknesses related to high rates, low wealth, and a housing market slump caused by the recession.

A pledge of the electric, water, sewer, and natural gas utility revenues secures the bonds. Electric revenue comprises roughly two-thirds of operating revenue. Water and sewer represent a combined 28%, while gas accounts for a relatively small 5% of operating revenue in fiscal 2015.

The City of Fort Pierce (estimated population, 41,590 in 2015) is on Florida's east coast, 120 miles north of Miami and 220 miles south of Jacksonville. The city is the commercial center of St. Lucie County, enjoying a solid transportation

network anchored by Interstate 95 and the Florida Turnpike. The service area includes Fort Pierce and unincorporated parts of the county, with about 75% of revenue generated within the municipal boundaries. The customer base experienced modest customer loss from 2009-2013, but appears to have stabilized in the past two years. Median household effective buying income is very low, in our view, at 55% of the U.S. average, down from 61% in 2010. The unemployment rate, which peaked at 14.0% in 2009-2010, has fallen back toward 8.8% in 2015, but is still significantly above the 5.3% national average.

Combined utility rates, which the authority sets, are higher than those of most combined utilities in Florida. According to the U.S. Department of Energy's Energy Information Administration, Fort Pierce's electric rates were 14% above the state average in 2014, the most recent year of available comparative data. Combined water and sewer bills were high at roughly \$86 per month for the typical 6,000 gal residential customer, although not significantly out of line with other area utilities. The utility projects a 3% rate increase in water rates in 2016, but does not project rate increases for the electric or sewer systems.

The FPUA is a participant in the FMPA's all-requirements power supply project (ARP). The contract continues indefinitely unless a participant gives notice of termination. In that case, the contract expires 30 years from the date of notification. Under ARP, FPUA assigns all generation resources and certain contractual entitlements for purchased power and fuel supplies to FMPA and agrees to purchase all requirements from ARP. FMPA's portfolio of generating assets is weighted toward gas-fired generation.

The FPUA's water and wastewater systems serve Fort Pierce and a 30-square-mile area surrounding the city, and have sufficient capacity to meet projected average and peak daily flows for the next 10 years.

The water system is served via well water. The authority has a 21.1 million-gallon-per-day (mgd) consumptive use permit from South Florida Water Management District. The FPUA operates a 20-mgd lime-softening treatment plant and has completed a 10.3-mgd reverse-osmosis plant. The wastewater system includes a 10-mgd water reclamation facility. The authority has purchased a site for a second wastewater treatment plant in the southwest portion of the service area, but officials do not expect construction to start before 2025.

The natural gas system serves the city and 27 square miles surrounding it. Pipeline capacity is contracted for on a take-or-pay basis from the Florida Gas Transmission Co., with purchases aggregated with other Florida municipalities through the Florida Gas Utility.

Financial metrics are solid. Debt service coverage has been strong, exceeding 2.7x over each of the past four years, while fixed cost coverage, which treats transfers to the city as operating expenses, and capacity payments to the FMPA as debt, has also been strong and stable, ranging between 1.35x and 1.37x over the same period. The distribution to the city is calculated as 6% of gross revenues as Fort Pierce's charter defines them. The FPUA's 2016 budget suggests a thinner coverage, but positive year-to-date variance demonstrates what has traditionally been conservative planning, and suggests anticipation of better-than-budgeted results. In our opinion, management's projections, which represent a carry-forward of the 2016 budget in subsequent years, are of limited value, as they are not based on robust assumptions. However, as current margins have historically helped FPUA produce solid and stable financial metrics, we believe that at the current rating level, they provide a degree of cushion should coverage

levels actually decline into the 1.25x range, as projected.

Liquidity has also historically been solid, with \$27 million of unrestricted cash, measuring 141 days of fiscal 2015 operating expenses. The FPUA expects to spend down roughly half of its available cash, which is expected to decline to \$14.3 million, or 67 days of operating expenses in fiscal 2018. About \$5 million of this is to adjust for over-collection of power costs from ratepayers, and the remainder is to cash fund capital expenses, which should keep debt levels manageable. We view the reduced level of liquidity cushion as still adequate, especially since the authority recovers purchased power and gas costs as incurred through the purchased power adjustment clause, which is adjusted as needed, and can be adjusted monthly. We also note that the projected liquidity for 2018 is still in excess of management's 60 days' cash target.

## Outlook

The stable outlook reflects the authority's record of recording strong and stable financial metrics. The outlook incorporates our expectation that fixed cost coverage and liquidity may weaken over the next five years, but only to levels that in our view continue to support the current rating.

### Upside scenario

Given management's projection of weaker coverage metrics and expectations for thinner liquidity, we do not expect to raise the rating over the next two years.

### Downside scenario

The rating or outlook would likely be lowered in the next two years if fixed cost coverage or liquidity decline below projected levels.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Ratings Detail (As Of June 10, 2016)

Fort Pierce Util Auth util (ASSURED GTY)

*Unenhanced Rating*

A(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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