

## **FITCH AFFIRMS FORT PIERCE UTILITY AUTH, FL REVS AT 'A+'; OUTLOOK STABLE**

Fitch Ratings-New York-07 July 2011: Fitch Ratings affirms the 'A+' rating on the following Fort Pierce Utilities Authority (FPUA), Florida, revenue bonds:

--\$93 million utilities revenue bonds, series 1999A, 1999B, 2003, and 2009.

The Rating Outlook is Stable.

### **RATING RATIONALE:**

--FPUA is a combined utility system providing essential electric, water, wastewater, and natural gas services to the residents of Fort Pierce and surrounding areas.

--The utility's financial indicators, including 2.5 times (x) debt service coverage, 103 days cash on hand, and 62.4% equity, are generally strong and in line with Fitch's fiscal 2010 'A+' rating category medians.

--The electric distribution system is a participant in several Florida Municipal Power Agency (FMPA) power supply projects. Electric rates have become more competitive as the price of natural gas has fallen. However, the system's vulnerability to energy markets has caused political tension in recent years.

--The economic downturn has exacerbated the city's weak economic indicators and stalled the implementation of rate increases that are critical to the timely recovery of costs across all systems. The electric utility, which provides approximately three-quarters of total operating revenues, continues to subsidize the water, wastewater, and natural gas utilities.

--Existing water and wastewater treatment capacity is adequate for the foreseeable future, and FPUA's manageable five-year capital needs will not require the issuance of additional debt.

### **KEY RATING DRIVERS:**

--FPUA's ability to adjust rates sufficiently to ensure the timely recapture of full costs across all utility funds within the next five fiscal years, per management's timeline;

--The maintenance of adequate financial metrics, including cash reserves equal to at least FPUA's goal of 60 days cash on hand.

### **SECURITY:**

The bonds are secured by net revenues of the combined electric, water, wastewater, and natural gas utility system.

### **CREDIT SUMMARY:**

FPUA's financial metrics remain strong and in line with Fitch's 'A+' rating category medians. However, combined operating results continue to be unbalanced. The electric system, which accounts for about three-quarters of total operating revenues, subsidized the three other utilities by about \$4 million per year through fiscal 2010. Electric rates have fallen to average levels with the decline in natural gas prices over the past two years, which has alleviated some political pressure. Regardless, management is committed to balancing each utility's financial operations with rate adjustments over the next five fiscal years, which should more accurately reflect the full costs of their operations.

Fiscal 2010 coverage of debt service equaled 2.5x, continuing a trend of solid results that have averaged 2.4x with little deviation over five years. Equity levels registered a healthy 62.4%, and cash on hand increased to 103 days. FPUA doubled its fiscal 2010 cash balance to \$20.4 million by halving capital expenditures to \$6.9 million on slowed growth and reducing other operating and maintenance costs. Approximately \$7.8 million of FPUA's cash will be used to phase-in water, wastewater, and natural gas rate increases over several years, while maintaining a minimum of 60 days cash on hand during the transition. Preliminary fiscal 2011 results indicate positive financial operations.

Electric rates consist of a base rate and power cost adjustment (PCA). Changes to the base rate require approval of the city commission. However, PCAs are made monthly at the discretion of the FPUA board. Electric base rates declined by 2.7% in 2011, and no additional changes are expected through 2015. Water, wastewater, and natural gas rates each increased by 2.5% and are expected to increase by similar amounts in the next four years.

FPUA makes an annual transfer to the city equal to 6% of gross operating revenues, adjusted for fuel charges. The transfer has averaged a manageable \$4.8 million annually, or less than 5% of total revenues, over five fiscal years.

FPUA is currently a member of FMPA's All-Requirements Project (ARP) and has assigned its sizable shares in the agency's Stanton, Stanton II, Tri-City projects to the ARP. (FPUA has not assigned its share in the St. Lucie Project to the ARP.) FPUA's electric rates are in line with the Florida municipal average, but were well above average in recent years due to the volatility in the price of natural gas. As such, management is evaluating its options for potentially exercising the contract rate of delivery option to reduce future wholesale power purchases from FMPA. The utility has adequate water and wastewater treatment capacity, and its \$66 million of five-year capital needs appears manageable.

FPUA serves 27,859 electric customers, as well as 19,048, 14,460, and 3,982 water, wastewater, and natural gas customers, respectively, in the city of Fort Pierce and portions of unincorporated St. Lucie County. Local economic indicators are weak: per capita income levels are about two-thirds of the state and national averages and the unemployment rate is a high 12.7%. In addition, development has slowed. Capital contributions, which amounted to \$19.2 million as recently as fiscal 2008, fell to \$3 million in fiscal 2010. However, fiscal 2010 energy sales stemmed a three-year slide by rebounding 3.3%, and relatively more stable residential customers compose a healthy 41% of total operating revenues. The 10 largest customers comprise a slightly above-average 19.3% of total revenues but represent a mix of stable government, education, and healthcare providers.

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In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from CreditScope, Public Resources Management Group, Inc., and WHH Enterprises, Inc.

Applicable Criteria and Related Research:

--'U.S. Public Power Rating Criteria', March 28, 2011;  
--'Revenue-Supported Rating Criteria', Oct. 8, 2010.

For information on Build America Bonds, visit '[www.fitchratings.com/BABs](http://www.fitchratings.com/BABs)'.

Applicable Criteria and Related Research:

U.S. Public Power Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=613065](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=613065)

Revenue-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=637130](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130)

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