

Fort Pierce Utilities Authority, Florida

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Credit Profile

US\$35. mil util rfdg rev bnds ser 2009 due 10/01/2020

Long Term Rating	A-/Stable	New
Fort Pierce Util Auth util rfdg rev bnds ser 99A		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Rating Services has assigned its 'A-' long-term rating to the Fort Pierce Utilities Authority (**FPUA or the utility**), Fla.'s \$35 million utilities refunding revenue bonds, series 2009. Standard & Poor's also affirmed the 'A-' underlying rating on the utilities' parity debt outstanding. The outlook is stable. A pledge of the electric, water, sewer and natural gas utility revenues secures the bonds.

The rating reflects our view of the following credit strengths:

- An all-requirements contract for purchased power from Florida Municipal Power Agency (FMPA);
- Good debt service coverage of about 2x after transfers to the City of Fort Pierce's general fund;
- Moderate capital needs that the utility is expected to fund with cash from operations or grants; and
- Liquidity that, although down modestly in the past four years, remains adequate for the ratings, measuring 40 days' equivalent of operating expenses.

We believe credit concerns include:

- A weak demographic profile, with modest population and customer growth, low average wealth levels, and very high (and cyclical) unemployment rates;
- Above-average electric rates; and

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▪ The practice of transferring 6% of gross revenue to the city that, coupled with fixed payments under the all-requirements purchased power contract, keeps fixed cost coverage in the 1.4x to 1.6x range. We have assigned Fort Pierce a business profile score of '5' on a scale of '1' to '10', '1' being the strongest. In our view, the score reflects the systems' relatively weak demographic profile and competitive position.

What we view as solid operating results support the rating, and help mitigate weaknesses related to high rates, low wealth and a housing market slump caused by the recession.

In the past three fiscal years (ending Sept. 30), annual debt service coverage—after transfers to the city's general fund—was 1.74x-2.00x. Officials expect rate increases in 2007, 2008, and 2009 to maintain current levels of bondholder protection, and reduced capital investment requirements—due primarily to decreased demand—will likely help limit the need for future rate increases. Electric base rates rose 6% in 2007, 3% in 2008, and 5% in 2009 and are currently 8.722 cents per kilowatt-hour (kWh). Including fuel costs, the rate is now 13.622 cents per kWh, which is in the 67th percentile of the range of electric rates in Florida for 1,000 kWh. In June, 2009, rates for the electric system are at \$145 per month, compared with the state municipal average of \$136. However, FPUA's electric rates will likely fall in November after the termination of a high-cost gas hedge purchased by FMPA, which supplies electricity to Fort Pierce under an all-requirements contract. This is a 30-year "evergreen" contract with automatic annual renewals. Fort Pierce is one of 15 municipal utilities in Florida that have power supply contracts with FMPA. FPUA has both power and purchased gas cost adjustments. Power and gas are both adjusted on an as-needed basis, driven by the wholesale purchase prices.

Despite rate increases, water and wastewater rates are average for Florida utilities. Water rates rose 12% in 2007, 3% in 2008, and 5% in 2009. Wastewater rates increased 10% in 2007, 9% in 2008, and 5% in 2009. Natural gas rates rose 9% in 2008 and 5% in 2009 to reflect higher operating and capital costs. Each of the utilities is self-supporting, but the combined revenues are pledged as security for debt issued. The electric utility accounts for almost all of the combined utilities' operating income.

In our opinion, liquidity is adequate for the ratings, with cash and investments representing 40 days' operating expenses. Management's informal goal is to maintain sufficient cash to cover 60 days of operating expenses. A \$2 million emergency reserve provides some cushion, and management indicated it would add lines of credit if hurricane damage required immediate funds.

FPUA's capital investment plan for the combined system in 2010 has been reduced to about \$18 million from the prior level of \$27 million. The need for a new wastewater plant has now been moved out to 2019, both because of slower growth projections and good progress in finding and blocking storm sewer overflows. Most of the near-term capital spending will be funded with cash from operations or grants.

Outlook

The stable outlook reflects our expectation that the limited flexibility of already high electric rates and weak demographic profile will not pose undue risk to bondholders, as what we consider to be strong coverage levels of total obligations should enable the utility to withstand short-term tightening of margins.

Economy

Fort Pierce (population, 44,227) 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. Officials expect modest growth.

The combined utility's electric system accounts for about 74% of system revenue and almost all of operating income. The water system accounts for 11%, the wastewater system for 10%, and the gas system for 4%. About 30% of system operating revenue comes from residential electric customers, and the bulk of the rest from commercial/industrial electric customers. Customer growth across all systems has been modest, with electric, gas, and wastewater expanding less than 1% annually during the past decade, while the water system has had less than 2% average annual growth. Leading customers account for 17% of combined system revenue, and leading electric customers account for 19% of electric system revenue. They include the St. Lucie County School Board, Indian River State College, the St. Lucie Board of County Commissioners, Lawnwood Regional Medical Center, the authority, and the city.

Operations

Electric

FPUA is a participant in FMPA's all-requirements power supply project (ARP). The contract expires Oct. 1, 2030. 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. The FPUA decommissioned native generation units in May 2009. FPUA also owns six transmission substations, six distribution substations, 23 miles of 69 kilovolt (kV) transmission lines and 376 miles of 13.2 kV transmissions lines. FPUA also maintains interconnection with the City of Vero Beach, as well as two interconnections with Florida Power & Light Co. (A/Stable/A-1) at Fort Pierce.

Water and sewer

FPUA's water and wastewater systems serve Fort Pierce and a 30-square-mile area surrounding the city. The water supply comes from 42 shallow wells and nine Floridian aquifer wells. The FPUA has a 21.1 million-gallon-per-day (mgd) consumptive use permit from South Florida Water Management District. The authority operates a 20-mgd treatment plant and has completed a 6.0-mgd reverse-osmosis plant. Capacity is sufficient to meet demand and water quality meets all environmental standards.

The wastewater system includes a 10-mgd water reclamation facility, with capacity sufficient through 2019. FPUA has purchased a site for a second wastewater treatment plant in the southwest portion of the service area, and officials expect construction to start in 2017.

Natural gas

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.

Related Research

- USPF Criteria: “Electric Utility Ratings,” June 15, 2007
- USPF Criteria: “Standard & Poor’s Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds,” Sept. 15, 2008

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