

# RatingsDirect®

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## Summary:

# Tampa, Florida; Water/Sewer

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## Summary:

# Tampa, Florida; Water/Sewer

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<b>Tampa wtr/swr</b> <i>Long Term Rating</i>	AAA/Stable	Upgraded
<b>Tampa wtr &amp; swr</b> <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded
<b>Tampa wtr/swr</b> <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services has raised its rating on Tampa, Fla.'s water and wastewater revenue bonds outstanding to 'AAA' from 'AA+', reflecting a long trend of strong coverage and liquidity levels, coupled with a very modest capital improvement program (CIP) and a favorable debt service schedule. The outlook is stable.

The rating reflects our assessment of the city water and sewer systems':

- Continued strong financial performance, as evidenced by a solid debt service coverage (DSC) and liquidity position;
- Stable customer area within a strong economic area;
- Stable long-term water supply, with sufficient treatment capacity;
- Competitive rates; and
- Modest CIP, with a greater use of recurring revenues.

The bonds outstanding are secured by a net revenue pledge of the city's water and sewer systems. The utility's revenue base is primarily locally derived. Local service charges, derived through an autonomous rate-setting process, represent virtually all of its revenues. This, coupled with operating expense flexibility, limits the utility's exposure to federal revenues and eliminates any sovereign rating cap.

Tampa's water and sewer systems each serve an area that includes the city and various surrounding suburban communities in Hillsborough County. We consider Tampa's economy strong, with participation in the broad and diverse Tampa-St. Petersburg-Clearwater metropolitan statistical area. The city is in Hillsborough County, on Florida's west coast, which had an unemployment rate of about 7% in 2014. The water system serves an area population of about 560,000 with about 130,000 accounts. The sewer system serves a similar sized population with more than 100,000 accounts. Although the systems are separately operated, their combined net revenue pledge secures the bonds. The systems have ample capacity to meet current and projected demand levels, and the city has the ability to purchase water from Tampa Bay Water(TBW) to supplement its own sources.

The systems' financial margins remain strong, in our view. Coverage of senior-lien debt has remained above 2.8x in

each of the past five years, while all-in coverage, including state revolving fund debt, has remained above 2.2x. Charges for water and wastewater services climbed to about \$212 million in fiscal 2014 from about \$150 million just five years ago. The fiscal 2015 budget shows charges for service totaling about \$215 million. A reduced rate of growth in the area has allowed capital needs to subside. The five-year CIP is only about \$236 million. Historically, management has favored pay-as-you-go financing for capital projects, and the plan calls for funding the CIP entirely with excess revenues. The debt service schedule shows a steady decline in the annual debt service requirement to less than \$17 million in fiscal 2018 from \$24.7 million in fiscal 2015. When including the subordinate state revolving funds (SRF) loan, \$31 million in total debt service is due this year. We expect coverage to remain strong thanks to stable revenues and operating expenditures. With the near-term decline in the debt service requirement, management could layer on additional debt without adversely affecting projected coverage.

In addition to strong coverage, liquidity also remains strong in our view at more than 400 days' unrestricted cash on hand at the fiscal year-ends 2012 and 2013 (the latest available audited statements). Liquidity may decline because a significant portion of the long-term CIP may be funded with recurring revenues, but we expect the overall level to remain strong, especially when considering management's policies regarding maintenance of reserves.

The rates remain affordable with a combined monthly water and sewer rate of approximately \$68.00 based on 8,000 gallons consumed, a level that is very competitive in Florida. The city council approved water rate increases that covered a five-year period through 2012. The rate structure includes an automatic pass-through of any rate increases by TBW. Each year, Tampa may receive water from TBW, although typically this represents a very small amount of water used by the city and a very small amount of water sold by TBW.

- The legal structure for these bonds features a 1.2x rate covenant. The additional bonds test has two components:
- 1.15x maximum annual debt service (MADS) coverage on a historical basis; and
- 1.25x MADS future coverage.

For this issue, a springing reserve feature has been added. If coverage levels decline below certain levels, a reserve must be funded at a certain percent of annual debt service.

## Outlook

The stable outlook reflects our expectation for rate increases to be enacted as necessary to ensure that coverage and liquidity levels are not pressured. The amortization schedule for both the senior-lien bonds and the SRF loans shows steady declines in the annual requirement, which should allow for any additional bonds to be issued without adversely affecting these ratios. A CIP that is predominantly pay-as-you-go is not viewed as a negative, unless resulting cash levels are unusually low.

## Related Criteria And Research

### Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008

- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

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