MOODY'S
INVESTORS SERVICE

Rating Update: Moody's upgrades Tampa Solid Waste Enterprise (FL) to A2 from A3; outlook revised to stable

Global Credit Research - 10 Nov 2014

Approximately $101.1 million in rated debt affected

TAMPA (CITY OF) FL SOLID WASTE ENTERPRISE
Solid Waste
FL

Opinion

NEW YORK, November 10, 2014 --Moody's Investors Service has upgraded to A2 from A3 the rating on City of Tampa, FL Solid Waste Enterprise's $101.1 million of outstanding rated debt. The outlook is stable.

RATINGS RATIONALE

The A2 rating is supported by strong legal flow control, contracts for facility operations and demonstrated willingness to raise rates to improve liquidity and coverage ratios. The stable outlook is based on the ongoing improvement in financial performance through 2013 and the current fiscal year 2014. The rating also incorporates the future rate hikes, last of which will happen in 2016, and the potential for further improvement in the economic strength of the service area. Along with the potential savings from operational efficiency measures, we expect continued improvement in financial performance over the next 2-3 years.

LEGAL SECURITY:

Pledge of net revenues of the solid waste system, which includes the McKay Bay Refuse-to-Energy facility, municipal collection service for in-city waste, transfer stations and recycling centers. Additional bond-holder protection is provided by a system pledge to maintain rates sufficient for net revenues to achieve 1.10 times debt service coverage on a bond ordinance basis. Bond holders additionally benefit from an additional bonds test (ABT) where net revenues must cover 1.10 times debt service on outstanding and proposed bonds for 12 consecutive months out of 24 months immediately preceding bond issuance. The ABT can also be satisfied by a prospective test whereby a qualified consultant reports that prospective net revenues, including rate increases adopted by the city for not yet implemented and projected costs of operation, cover debt service by 1.10 times. All bonds are additionally secured by a debt service reserve, sized at 125% of average annual debt service requirements or maximum annual debt service. The reserve is fully cash funded at maximum annual debt service.

STRENGTHS

- Demonstrated willingness to increase residential and commercial assessment fees through a multi-year rate increase regime

- Strong flow control with the city controlling nearly 100% of the waste flow through municipal collection and contractual agreements

- Strong offtaker for electric sales agreement in Seminole Electric Cooperative (A3 stable)

- Improving local economy that is expected to outperform the nation over the near term

- Modest capital plans to be cash funded with no expected debt issuance

CHALLENGES

- Starting July 2012, the newly authorized Payment in Lieu of Franchise Fees (PILOF) requires the City of Tampa to assess a maximum of 15% commercial solid waste franchise fee, which although below the line may result in lesser than expected improvement in liquidity

Outlook

The stable outlook reflects improved financial performance from scheduled rate increases, stronger economic performance of the service area as well as approved rate hikes and proposed operating efficiencies that could reduce operating expenses - all of which will result in improvement of debt service coverage and liquidity.

What Could Change the Rating -UP

Sustained increased in liquidity above 500 days cash on hand and debt service coverage above 2.5 times could result in positive pressure on the rating.

What Could Change the Rating - DOWN

The rating could be downgraded if improvement in liquidity and operating expense reduction fails to materialize, resulting in liquidity below 150 days cash on hand and debt service coverage ratio below 2.5 times on a sustained basis. A multiple notch downgrade of the electricity sales off-taker or tonnage below contractually required levels could put negative pressure on the rating. The rating can also move down should operational issues rise in the WTE facility.

DETAILED CREDIT DISCUSSION

The Solid Waste Department ("department" or "system") is a component of the City of Tampa (Aa1 NOO) ("city") and is charged with collection and disposal of solid waste within the city limits. Collection of residential waste is handled by the department and collection of commercial waste is handled by both the department and private haulers, who are now required to pay franchise fees to the city. The system comprises a scale house, transfer station and a waste-to energy (WTE) facility. The department recently assumed control of operating the transfer station and operates it along with the scale house. The WTE facility is operated under a long-term contract with Wheelabrator McKay Bay, Inc. (WMBI - a wholly owned subsidiary of Wheelabrator Technologies, Inc.). Wheelabrator Technologies, Inc. (WTI) is a subsidiary of Waste Management Inc. (rated Baa2, stable).

Reportedly in July 2014, Waste Management, Inc. (WM) signed a definitive agreement for divestiture of WTI to Granite Acquisitions, Inc. a wholly owned affiliate of Energy Capital Partners. The transaction is subject to Federal Energy Regulatory Commission (FERC) approval and other customary closing conditions. As per the city, the long term O&M agreement with WMBI, is such that the sale of WTI does not release WM as the Guarantor for WMBI's performance obligations.

In FY2013, operating revenues increased by 17% to $81.9 million from $69.7 million in FY2012. This uptick in revenues resulted from the rate hike of 10% for the residential customers and 12% for commercial customers, which reported FY2013 operating revenues of about $31 million and $36 million, respectively. This rate hike is part of the five-year rate hike resolution adopted by the City in April 2012. In each of the fiscal years 2014-2016, rates will be increased by 3% for the residential customers and 12% for the commercial customers. The city has budgeted an increased operating revenues in FY2014 of about 5%. Total electric output in FY2013 was similar to that in FY2012 at 17 MWs. Total electric revenue from the off-take contract with Seminole Electric Cooperative was about $8.3 million in FY2013, about the same as in FY2012. Total waste processed in FY2013 was about 382,671 tons, a modest increase of 0.7% compared with 379,919 tons processed in 2012.

The growth in operating revenues resulted in an improvement in debt service coverage ratio (DSCR) to about 2.1 times in FY2013 from 1.5 times in FY2012. Liquidity also increased from about 85 days of cash to 119 days of cash. Moody's expects further improvement in coverage and liquidity going forward. As per the city unaudited financial results, in FY2014 DSCR improved 2.5 times and liquidity increased to about 150 days. Moody's expects liquidity to exceed 200 days of cash and coverage to be about 2.5 times going forward in the period between 2015 and 2017, based on projections provided by the city. In addition to the rate hikes, last of which will happen in 2016, the department has planned a slew of other measures, such as executing a new landfill disposal contract at a lower tipping charge in October 2014 and implementation of a new GPS route optimization and work management system in early 2015, all of which will result in cost savings and operational efficiencies.

We think the improved financial metrics are achievable given the essentiality of the solid waste management service to users, the improving economic climate in the service territory, and the 98% historical collection rates. Moody's Analytics expects the Tampa-St. Petersburg-Clearwater economy will keep up with the nation over the next two years as an influx of residents, mostly retirees, drives demand for housing and other locally produced services. These transplants will raise the area's median age and contribute to its tax base but will not add to its tightening labor supply. These factors will ensure that the area's income and job growth expands faster than the nation's over the forecast horizon.

KEY INDICATORS:

Type of System: Integrated collection and disposal system, including municipally-owned WTE facility and landfill

Service Area Population 2012: 347,645

Residential Units Served FY2013: 72,852

Commercial Units Served FY2013: 8,597

Moody's Debt Service Coverage Ratio FY2013: 2.1 times

Bond Ordinance Debt Service Coverage Ratio FY2013: 2.1 times

Projected DSCR FY2014: 2.49 times

Total waste processed, excluding bypass, FY 2013: 307,650

Debt Ratio %, FY2013: 86.2

Net Working Capital, FY 2013: $4.2 million

Days Cash on Hand, FY2013 (FY2012): 119 (85)

Parity Debt Outstanding, FY2013: $101.151 million

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The principal methodology used in this rating was Waste-to-Energy Projects published in April 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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