

RatingsDirect®

Summary:

Fort Lauderdale, Florida; Water/Sewer

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Summary:

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Credit Profile

US\$161.99 mil wtr and swr rev and rev rfdg bnds ser 2016 due 09/01/2038

<i>Long Term Rating</i>	AA+/Stable	New
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Fort Lauderdale wtr & swr

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' rating to Fort Lauderdale, Fla.'s series 2016 water and sewer system revenue and revenue refunding bonds. At the same time, Standard & Poor's affirmed its 'AA+' rating on the system's revenue-secured bonds outstanding. The outlook is stable.

The ratings reflect our assessment of the following:

- A very strong enterprise risk profile assessment which includes a strong service area economy, low industry risk, strong market position, and very strong operational management assessment; and
- Strong financial risk profile assessment which includes adequate all-in coverage of debt service, very strong liquidity and reserve position, adequate debt and liabilities position, and very strong financial management assessment.

Net system revenues secure the bonds. We understand bond proceeds will be applied to advance refund the system's series 2006, 2008, and 2010 revenue bonds, as well as all amounts outstanding under the refunded state revolving fund (SRF) loans.

The broad, residential nature of the system's service area provides stability. The system is a regional service provider, servicing residents of Fort Lauderdale, as well as other cities and unincorporated areas of Broward County. In addition, it provides water and sewer service under long-term wholesale agreements with the cities of Wilton Manors, Oakland Park, Broward County's Port Everglades, and portions of the city of Tamarac, the town of Davie, and unincorporated areas of Broward County. The system has entered into 20-year service agreements with these wholesale customers. The earliest contract sunset occurs in 2017. Historically, wholesale customers have renewed their contracts for additional 20-year terms. Pursuant to the contracts, the system bills bulk customers based on volumetric use, but maintains the ability to raise rates, as necessary. Bulk customers account for approximately 18% of system consumption.

Although the city's estimated population is over 170,000, the estimated total water and sewer service area populations are more than 218,000 and 181,000, respectively. In 2015, the system served 60,138 water and 47,110 sewer accounts. When including inactive and seasonal customers, customer accounts rise to 63,066 and 51,333 for water and sewer,

respectively. Single-family residential accounts represent 60% of total accounts and 30% of metered usage. The top 10 customers comprise 24.3% of consumption, including wholesale customers. Historically, on an average annual basis, active water accounts have risen 0.6% since 2011, with active sewer account growth around 0.9% during the same period. Based on revised population projections, expected account growth should be moderate, at about 0.5% across both services.

The monthly combined water and sewer rate (based on 6,000 gallons of usage) is \$53.37, or an affordable 1.6% of median household effective buying income.

The city currently procures all of its raw water via two well fields from the Biscayne Aquifer. The system also maintains and operates two water treatment plants, Peele-Dixie and Fiveash, with total treatment capacity of 82 million gallons per day (mgd). Water system capacity is sufficient to meet current demand. The system's 20-year water consumption use permit was issued on Sept. 11, 2008. The permit specifies that overall annual water withdrawal must not exceed 22,334 million gallons, equaling approximately 61.2 mgd; more specifically, Biscayne Aquifer water withdrawals are limited to 52.55 mgd of the permit total. Management expects to derive additional water supply from the Floridan Aquifer, which generates more brackish water that requires reverse osmosis or nanofiltration treatment. Fort Lauderdale's transition to the Floridan Aquifer for additional raw water supplies is becoming typical in southern Florida as the South Florida Water Management District employs its plan to restore the Everglades. In recent years, management completed two test wells in the Floridan Aquifer and the preliminary design for the construction of an additional 6 mgd of finished water reverse osmosis treatment capacity at the Peele-Dixie water treatment plant, which would draw raw water from the Floridan Aquifer. However, the construction of additional wells and treatment facilities has been postponed because population projections have fallen; construction will be delayed until demands dictate the need.

Fort Lauderdale manages collection and transmission of wastewater in the city and provides wastewater treatment and disposal services to more than 47,000 customers. The system owns and operates the G.T. Lohmeyer Regional Wastewater Treatment Plant with a permitted capacity of 56.6 mgd and average daily flows of approximately 39.7 mgd in 2013. Expected sewerage flows should reach 42.2 mgd by 2023, which is a decrease from the previous forecasts due to revised population projections and the system's continuing efforts to reduce inflow and infiltration. More than 70% of the service area population resides in the city and the balance in neighboring jurisdictions. The city provides treatment and disposal to these entities pursuant to large user agreements. Large users include the cities of Oakland Park, Wilton Manors, and Tamarac; the town of Davie; and Port Everglades.

In the long term, as with many other systems in the state, Fort Lauderdale continues to face challenges related to the procurement and investment in additional raw water resources. The recent economic downturn yielded revised regional population projections, combined with various conservation efforts, which have translated into lower-than-projected water demand and provides the system with the flexibility to delay demand-related capital projects. Previous system projections indicated that the water system would meet its demands until at least 2013 with its base water use of 52.55 mgd from the Biscayne Aquifer. However, due to the revised population projections, management expects to meet its water demands from the Biscayne Aquifer until at least 2035. Management has adjusted its operational and financial forecasts (2015-2019) to incorporate recently revised regional population

projections. In turn, the current forecast includes customer account growth of just 0.5%, down from 0.6% previously. Management has done a number of long-range master plans to determine future water capacity needs and continues to proactively work toward fulfilling them. Management has continued to follow withdrawal requirements set by the South Florida Water Management District and the city has instituted water conservation measures which have been effective. Lastly, the city is solely responsible for setting rates and it has historically used consultants to develop rate studies to assist in making rate changes. The last rate hike was for fiscal 2016, which saw a 5% rate increase across the board for water and sewer usage. During 2011, a rate study was completed to develop an updated financial management plan, including a schedule of annual rate increases necessary to meet the system's projected operating, capital, debt service (including coverage), and reserve requirements. Based on the study, the city commission adopted an annual rate indexing policy of adjusting rates using the greater of the annual change (measured each May) in the U.S. CPI Water and Sewerage Maintenance Series, or 5%. In addition, due to increased expenses related to the city's new return on investment policy and rising renewal and replacement requirements, additional 1% and 1.75% rate increases were adopted in the city's fiscal year 2012 and 2013 rates. For fiscal years 2014-2016, the city adopted only the automatic 5% increase. During the fiscal planning horizon for fiscal years 2017-2020, it has factored in just 5% increases.

System finances show adequate overall debt service coverage (DSC). Annual all-in DSC of revenue bonds and SRF loans was adequate in fiscal 2014 at 1.33x, up from 1.23x in fiscal 2013 and 1.01x in fiscal 2012. Management is projecting coverage to increase to over 1.86x by fiscal 2017. The city is assuming annual 5% rate increases and annual debt service on the revenue bonds remaining level at \$26.1 million. It is also planning on 1.2% annual rate of growth in water demand, mainly through moderate population growth and incorporating water conservation efforts.

In our view, liquidity remained very strong at the close of fiscal 2014 with approximately \$96.2 million in unrestricted cash, which equals a strong, in our opinion, 423 days' cash on hand, down from \$101 million (634 days) in fiscal 2011. The city is projecting liquidity to increase by fiscal 2017. Even while management is intending to use a portion of its unrestricted cash to fund capital projects on a pay-as-you-go basis, it expects to maintain liquidity well above its 90-day reserve policy.

The current five-year capital improvement plan (CIP; 2016-2020) encompasses \$185.9 million in total capital project costs. Management indicates that there are no additional debt plans over the CIP horizon and expects that it will fund such costs on a pay-as-you-go basis with available reserves. The system is moderately leveraged, in our view, with a debt-to-plant ratio of 46%. The city represented that it does not have any bank loans or direct-purchase obligations tied to the water or sewer system.

Outlook

The stable outlook reflects our view of the system's historical coverage of annual debt service, aided by the city commission's willingness to adjust rates. The residential nature of the system's customer base and presence of long-term wholesale contracts provide additional rating stability, in our opinion. Based on these expectations, we do not believe a rating action is likely over the two-year parameter of the outlook.

Upside scenario

There would need to be improvement in all-in coverage and debt-to-capitalization ratios for us to consider raising the rating.

Downside scenario

Given the current financial profile of adequate coverage and strong liquidity at the current rating level, any precipitous drop in liquidity over a sustained period or decrease in overall coverage would likely cause us to lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Rating Methodology And Assumptions For U.S. Municipal Waterworks And Sanitary Sewer Utility Revenue Bonds, Jan. 19, 2016
- 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

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- U.S. Municipal Water And Sewer Utilities 2014 Sector Outlook: Learning To Do More With Less, Jan. 9, 2014
- Institutional Framework Overview: Florida Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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