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Summary:

Reedley Public Financing Authority, California Reedley; Water/Sewer

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Credit Profile

Reedley Pub Fing Auth, California

Reedley, California

Reedley Pub Fing Auth Wastewtr Expansion Proj

Unenhanced Rating

A-(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on the Reedley Public Financing Authority, Calif.'s series 2007 wastewater revenue bonds, issued for the city of Reedley, to 'A-' from 'BBB+'. The outlook is stable.

The upgrade is primarily due to better financial performance in 2013, now that the authority has fully implemented a 20% rate increase effective October 2012. In our view, this should be sustainable, at least through the two-year outlook horizon, inasmuch as the customer base is stable and management has indicated no additional debt needs.

The rating reflects the following characteristics, including:

- A stable, primarily residential customer base, supported by an agriculture-based economy that has experienced high unemployment recently;
- Incomes we consider low to adequate;
- Improving financial performance;
- Strong liquidity; and
- No immediate debt needs.

A pledge of net revenues of the wastewater system secures debt service. (These revenues include "Fund 105" deposits that are wastewater treatment facility developer impact fees and related revenues.) The bonds are on parity with the city's outstanding 2001 bonds and a \$27 million state revolving fund (SRF) loan in 2010. Bond provisions include a 1.1x rate covenant and a 1.25x additional bonds test (ABT) based on maximum annual debt service (MADS).

Reedley's wastewater system provides collection and treatment services for a population of about 25,000, representing about 6,200 accounts in Reedley. The system serves a 4.4-square-mile area and has a capacity of 5 million gallons per day (mgd) and an average daily flow rate of 2 mgd. While Reedley's geographic area is experiencing drought conditions, the city's water source has not experienced interruption in service because water is provided from city-owned wells. Since some of the city's wastewater billing is based on metered water consumption, a drought can weaken revenues, although management has not reported any major negative revenue variances to date. The city is in Fresno County, about 23 miles southeast of Fresno. Reedley's overall economic base is concentrated in agriculture and

agricultural processing, but continues to diversify as it grows. We consider median household effective buying income (EBI) good at 92% of the national average and per capita EBI low at just 60%. Fresno County's unemployment rate has been 10% or greater since 2008; for 2013 it was 12.9%.

We consider revenues from the 10 leading customers diverse, with 10% of fiscal 2013 operating revenues collected from these 10 leading users.

Rates are currently affordable, in our view, notwithstanding a 20% sewer rate increase effective October 2012. Current residential combined water and sewer rates are \$80.38 per month for 8,000 gallons. Rates can be adjusted by inflation each year, provided that the increase, which is still subject to city council approval, is no more than 2.5%.

Total debt service coverage (DSC) has improved in 2013 to a level we consider good; it was insufficient the prior two years. Annual debt service increased to about \$2.2 million in 2011 from \$450,000 in prior years, as a 2010 state revolving fund loan (issued to fund expansion of Reedley's wastewater treatment plant to 5 mgd from 3 mgd) started to amortize. For 2011 and 2012, total DSC was less than 1x, then improved to 1.3x in 2013.

Unrestricted (audited) cash in the sewer fund has remained strong. It totaled \$3.9 million and 700 days' operations. The city has also established a fund balance policy, for the purpose of maintaining at least 45 days of working capital, which is defined as current assets less current liabilities. Whenever the balance drops to a level less than 45 days of operating expenses, the policy requires the city to initiate a plan to replenish the deficit.

Management has not indicated any significant financial variance that would cause financial performance in 2014 to differ significantly from what was achieved in 2013.

At this time, the city does not plan to issue additional wastewater revenue bonds in the immediate future.

Outlook

The stable outlook reflects our expectation that the sewer fund will continue to produce DSC in excess of the minimum 1.1x rate covenant and maintain strong liquidity. We base this expectation on the lack of additional debt needs and the stable customer base supporting the fund's revenue base.

If for some reason, the fund's financial position deteriorates, we could lower the rating. Further improvement of the rating would be contingent on the DSC remaining at least as good as it was in 2013 and liquidity remaining strong.

Related Criteria And Research

Related Criteria

- 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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