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Summary:

Riviera Beach Utility Special District, Florida; Water/Sewer

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Credit Profile

Riviera Beach Util Spl Dist WTRSWR

Long Term Rating

A+/Stable

Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'A+' rating on Riviera Beach Utility Special District, Fla.'s outstanding revenue bonds.
- The outlook is stable.

Security

The district's net water and sewer system revenues secure the bonds. We view bond provisions as adequate.

Of note is that the district refunded its series 2014 and series 2016 debt issuances with a privately placed series 2022A and series 2022B; however, the defeasances only apply to maturities after 2025 and so our ratings still apply to those bond series.

Credit overview

The rating reflects our expectation that the district will maintain financial metrics we generally consider to be consistent with the current rating level while managing its \$167 million capital plan. However, this plan includes a potentially large debt issuance in the near future for a water treatment facility rebuild, and the rating is currently limited by the uncertainties regarding how these additional debt costs will ultimately be layered in.

In the meantime, management has drawn on available reserves to fund ongoing capital projects. Liquidity levels have dropped from \$49 million in 2019 to \$32 million, or 481 days' cash, in 2021. The district has not raised rates since 2019, and so in anticipation of the upcoming debt issuance and to maintain in compliance with its minimum liquidity policy of 50% of annual operating costs on hand, management is intending to raise rates in 2023 by 45% for the water system and 20% for the sewer system. After this initial rate increase, water rates will increase by 7% annually and sewer rates by 5% annually through 2028. With these rate increases and the defeasances, we expect that coverage will return to historic levels. In 2020 the district achieved coverage of near 2.7x, although this dropped to 1.1x in 2021 due to increased operating expenses. All-in debt service coverage (DSC) is our internally adjusted metric that we believe best tracks the use of every dollar of utility operating revenues, regardless of lien position, accounting treatment, or ultimate purpose. In the district's case, the all-in DSC metric accounts for routine transfers out and its annual payment to East Central Regional Wastewater Reclamation Facility (ECR), which treats the district's wastewater.

Environmental, social, and governance

We view environmental risks as somewhat elevated because the service area is prone to natural disasters. However, management has mitigated risks by maintaining an emergency response plan and also remains in compliance with regulatory requirements. In addition, it is our understanding that asset-hardening efforts will be a priority for the new treatment plant project.

We view social risks as credit-neutral currently but believe that management will need to be cognizant of affordability effects as additional rates are phased in through 2028.

We view governance risks as credit neutral given our view of management's operational and financial planning and practices. The city had a cyber incident in 2019; however, the losses, which were not material, were covered by cyber insurance. Since the incident, management has made cyber security a priority, with all equipment protected with firewalls, dual authentication installed, incoming and outgoing communication closely monitored, and trainings completed by all staff. We do not view the cyber incident as a credit risk because of management's response.

Outlook

The outlook reflects our expectation the district will maintain strong financial metrics during its upcoming capital plan by means of the rate increases and additional debt issuance.

Downside scenario

Should the city not manage rates in relation to expenses and additional debt obligations, resulting in coverage or liquidity inconsistent with management's projections, we could lower the rating.

Upside scenario

We could raise the rating should the district achieve a sustained increase in coverage, including the anticipated debt issuance, and strengthen its liquidity position while successfully implementing the capital program.

Credit Opinion

Riviera Beach, in east-central Palm Beach County, is about five miles north of West Palm Beach and 70 miles north of Miami. The service area's economic base benefits from access to the broad and diverse Miami-Fort Lauderdale-West Palm Beach metropolitan statistical area, although the median household effective buying income is 81% of the national average. The district provides water and sewage services to about 13,000 connections throughout its service area of about 10 square miles, which includes the city of Riviera Beach, the town of Palm Shores, Peanut Island, and a portion of West Palm Beach and unincorporated parts of the county.

Water is sourced from the Biscayne Aquifer through 28 wells with a permitted withdrawal of 9.08 million gallons per day (mgd); however, the current water treatment capacity is 17.5 mgd. In addition, the district has five water storage tanks with 4.4 million gallons of capacity. The district conveys its flows for treatment to the ECR, which has a capacity of 70 mgd. Riviera Beach is one of five entities using the ECR, along with West Palm Beach, Lake Worth, the town of Palm Beach, and the county, pursuant to an interlocal agreement that extends to 2052.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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