

# RatingsDirect®

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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 (Reedley) wtr

*Unenhanced Rating*

A(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services affirmed its 'A' underlying rating (SPUR) on the Reedley Public Financing Authority, Calif.'s series 2007 water revenue bonds, issued for the city of Reedley. The outlook is stable.

Factors supporting the rating include the following:

- A stable, primarily residential customer base, supported by an agriculture-based economy that has experienced high unemployment recently;
- Incomes we consider low to adequate;
- Financial performance we deem at least good; and
- No immediate debt needs.

A pledge of net revenues of the water system secures debt service. Bond provisions include a 1.1x rate covenant and a 1.25x additional bonds test based on maximum annual debt service (MADS).

Reedley's water system provides collection and treatment services for a population of about 25,000, representing about 6,200 accounts in the city of Reedley. The system, which serves a 4.4-square-mile area, has a pumping capacity of about 13 million gallons per day (mgd) with an average daily flow rate of 3.6 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. 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 4% 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%.

Historically, financial performance has been at least adequate, in our view. Since fiscal 2008, net revenues covered annual debt service by at least 1x, which we consider adequate. However, for the fiscal year ended June 30, 2013, coverage was good at 1.4x. Also for 2013, unrestricted (audited) cash in the water fund was \$3 million and 559 days' operations, which we consider strong.

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 water revenue bonds in the immediate future.

## **Outlook**

The stable outlook reflects our expectation that the water system will continue to generate financial margins that cover debt service by 1x without significant dilution in liquidity. Our view is supported by the system's limited additional debt needs and approved inflationary rate increases.

If, for some reason, the system's financial performance deteriorates, we could lower the rating. We do not foresee the rating improving within the two-year outlook horizon given the city's relatively high unemployment and just adequate incomes.

## **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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