

**Rating Update: Delray Beach (City of) FL Water & Sewer Ent.**

**MOODY'S AFFIRMS A2 RATING ON THE CITY OF DELRAY BEACH'S (FL) WATER AND SEWER REVENUE BONDS**

**A2 RATING AFFECTS \$13.2 MILLION IN OUTSTANDING RATED BONDS**

Delray Beach (City of) FL Water & Sewer Ent.  
Water/Sewer  
FL

**Opinion**

NEW YORK, Feb 5, 2009 -- Moody's affirms the A2 rating to \$13.7 million outstanding Delray Beach (FL) Water and Sewer Revenue Bonds (Series 1993 and 1997). The bonds are secured by the system's net revenues. The A2 rating is based on the utility's satisfactory financial performance, long-term water and wastewater treatment capacity and water supply, and a moderately leveraged debt position. In addition to the rated bond issues, the city also has three bank loans (Series 2006 A&B and Series 2007) outstanding in the amount of \$17.7 million which are parity to the outstanding bonds.

Legal provisions include a debt service reserve fund, a 110% (annual debt service) rate covenant and a minimum 120% (of MADs) additional bonds test.

**ADEQUATE LONG-TERM WATER AND WASTEWATER TREATMENT CAPACITY AND WATER SUPPLY**

Moody's believes that the city has adequate treatment capacity and can provide for long-term water supply needs for the foreseeable future. The system provides service to about 69,335 people (65,781 people in the city) within its 16 square mile service area that includes the city, Highland Beach and the Town of Gulfstream. Although the system is mostly developed, recent annual customer growth has been about 1.5%, but is expected to decline in the current depressed housing market. The system is in regulatory compliance and operates with aged fixed assets, which are being depreciated by over 46%.

The water system derives its supply from the Surficial Aquifer, pursuant to a 20-year consumptive use permit (CUP) issued through the South Florida Water Management District (SFWMD) expiring in 2025. A city water supply study indicates that supply is adequate to 2030. The system's 26 MGD treatment capacity is in relation to average and peak demand of 15.7 MGD and 18.3 MGD respectively under the current Phase II Water Restrictions imposed by the SFWMD. The current CUP limits the city's daily allocation to 15.92 MGD in March 2010. Upon renewal of the City's CUP under the current Ground-Water Availability Rule, the City's daily base allocation is 19.01 MGD. Staff is in the process of renewing the CUP with SFWMD to obtain a 20 year permit that would be concurrent with the 20 Year Water Supply Plan and increase the permitted allocation to 19.81 MGD. There is 8.5 MG storage in the system and officials report that they are in compliance with Disinfection By-Product - Stage 2 requirements. water loss (unaccounted for water) is estimated to be between 15% and 18%.

The sewer system sends waste to the South Central Regional Wastewater Treatment Facility (SCRWWTF) which has a 24 MGD capacity in relation to the city's average flow of 8.9 MGD. Effluent is currently disposed of through ocean outfall, but a new injection well system (to be operational in March 2009) will eliminate the outfall except in emergency situations. Officials are also expanding their reclaimed water system. Beginning in February 2009, sludge will be treated to a Class AA Pelitization standard that should meet expected state requirements. Infiltration/inflow is currently estimated at between 5% and 10%. There are reportedly no issues related to TMDL's.

**SATISFACTORY FINANCIAL PERFORMANCE WITH NARROW UNRESTRICTED CASH**

Annual rate increase (some sizable in 2007 and 2009) over the last five years have allowed for debt service coverage to be maintained from 2.1 times to 2.6 times, while allowing for annual system pay-go funding. Unaudited fiscal 2008 operations indicate an estimated 12% decline in net revenue, increasing operating ratio to 60.1% but maintaining debt service at a still satisfactory 2.17 times. Unrestricted cash at the end of fiscal 2007 equated to about 34 days of cash on hand, before consideration of an additional \$1.5 million in restricted renewal and replacement (R&R) funds. The systems rapid receipt of accounts receivable and ability to implement rate increases quickly are additional favorable factors mitigating unrestricted cash

position. The system's average monthly residential bill of \$66 is well above the \$42.04 average for the region. The system makes an in-lieu-of-tax payment to the city as well as paying its allocated share of general government services provided.

#### MANAGEABLE DEBT PROFILE AND CAPITAL PROGRAM

Moody's expects the system's debt position to remain manageable in light of no expectation of additional debt issuance and rapid payout of existing obligations. The system's debt ratio of 36.7% in fiscal 2007 is moderate. The system has a five-year (2009 to 2013) \$14.4 million capital program expected to be funded with operating funds and grants, without the use of capital borrowing. Projects include main upgrades and meter replacement as well as sewer rehabilitation projects. Rated bond payout is rapid retiring debt by 2015, with bank loans amortized through 2022. No additional debt is planned at this time.

#### MATURE RESIDENTIAL TAX BASE

Moody's believes that the city's large \$12 billion tax base will experience some continued constriction given property tax reform and housing market correction. Although the city is nearly built out, redevelopment of former commercial and industrial properties, as well as the downtown area has fed tax base growth through fiscal 2008. The tax base has declined 5.6% in fiscal 2009, and officials anticipate a similar decline in the upcoming fiscal year. Located in southern Palm Beach County (G.O. rated Aaa), the city is primarily a resort and residential (66% of assessed value) community and has experienced some population growth, increasing 7.2% since 2000 to an estimated 64,360 in 2007. Seasonal residents add another estimated 12,000 residents to the city's population as reflected in the relatively high number of seasonal homes in the city (11.5% of total housing stock as of 2000). Wealth and income levels are above average with per capita and median family income levels at 136% and 112% of the state, respectively. Above average full value per capita reflects a number of high end primarily and secondary residential properties, as well as a notable commercial and light industrial presence. Median home values have reportedly declined in the 10% to 13% range. The city's 7.7% unemployment rate at November 2008, is above both the state (7.3%) and the nation (6.5%) indicative of the narrow local economy.

#### STATISTICS:

Security: Net revenue of the combined water and sewer system.

System Debt Outstanding,

Rated: \$13.7 million

Bank Loans: \$17.7 million

Bond and Loan Maturity: FY 2022

Population Served: 69,335

Treatment Capacities/ Average Demand,

Water: 26 MGD/ 13.4 MGD

Sewer: 24 MGD/ 8.9 MGD

FY 2007 Operations,

Operating Ratio: 56.4%

Debt Ratio: 36.7%

Debt Service Coverage: 2.58 times

FY 2007 Unrestricted Cash / O&M: \$1.6 million/ \$17 million

#### RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating this issue was the Analytical Framework for Water and Sewer System Ratings, which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to the city's wastewater enterprise was on October 31, 1997, when an underlying rating was assigned to the system's 1997 revenue bonds.

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