

FITCH AFFIRMS INDIAN RIVER COUNTY, FL WATER & SEWER REVS AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-Austin-22 December 2016: Fitch Ratings has affirmed the rating on the following Indian River County, FL (the county) revenue bonds at 'AAA':

--\$17.6 million water and sewer system revenue refunding bonds, series 2009.

The Rating Outlook is Stable.

SECURITY

The bonds are supported by the net revenues of the county's water and sewer system (the system).

KEY RATING DRIVERS

EXCELLENT FINANCIAL PROFILE: The system has produced over 2.0x debt service coverage (DSC) for the past five years and has maintained excellent liquidity. Unaudited fiscal 2016 results show 4.2x Fitch-calculated DSC and over \$43 million in unrestricted available cash on hand (approximately 870 days).

LIMITED CAPITAL NEEDS, LOW DEBT: The system's capital improvement program (CIP) is limited and primarily addresses renewal and replacement (R&R) projects. Following the call of certain debt obligations in 2015, debt levels are expected to decline further.

AFFORDABLE AND FLEXIBLE RATE STRUCTURE: The system has not had to increase rates since 1999 due to low population growth and wide operating margins. Though it has no plans to do so in the foreseeable future, the system is authorized to impose consumer price index adjustments if necessary.

STRONG AND CONSERVATIVE FINANCIAL PLANNING: Management has demonstrated consistent financial and capital planning, and is conservative in their financial projections and budgeting practices.

RATING SENSITIVITIES

MAINTENANCE OF STRONG FINANCIAL POSITION: Indian River County, Florida water and sewer system's very strong underlying credit fundamentals, which include strong financial performance, limited and rapidly amortizing debt and limited capital needs, support the 'AAA' rating. A significant decline in one or more of these strong attributes could result in downward rating pressure.

CREDIT PROFILE

Indian River County (Issuer Default Rating 'AAA') is located on Florida's central Atlantic coast about 86 miles southeast of the city of Orlando. The county covers nearly 500 square miles and has a population of nearly 148,000. The economy is supported by construction, manufacturing, health care, tourism, educational services, retail, and distribution.

STRONG CURRENT AND FUTURE FINANCIAL PROFILE

The system's financial performance has been historically solid, with above 2.0x DSC consistently since 2009, and 3.3x Fitch-calculated DSC in fiscal 2015. The county's conservative management maintains this positive coverage level as well as substantial cash reserves in an effort to guarantee available cash for unforeseen system needs. Fitch-calculated unaudited coverage for fiscal 2016 is expected to be 4.2x, and 3.7x and above through fiscal 2021 according to a management-provided financial forecast. Based on historic performance and limited capital and expenditure needs, Fitch expects that positive financial results will continue.

Liquidity is extremely strong, with the system ending fiscal 2015 with more than \$37 million in unrestricted cash on hand, equivalent to over 810 days of operating expenses. Unaudited fiscal 2016 results show an uptick in cash to over \$43 million, equating to about 870 days on hand.

LOW DEBT, MANAGEABLE CAPITAL NEEDS

The system's low debt profile is a key credit strength. Debt per customer is just \$380 in fiscal 2015, well below average compared to other similarly rated systems. Debt to net plant was also low at just 14% for the same period, and debt amortization is well above average with 100% of outstanding bonds retired within 10 years.

The county's four-year \$37 million CIP is expected to be funded entirely with grants, impact fees, assessments and existing cash. Historic capital spending since 2010 has been variable, with capital expenditures (CapEx) relative to the rate of annual depreciation averaging only 41% during that time. While Fitch views this level of CapEx as somewhat weak and possibly as an indicator of deferred maintenance, the system underwent substantial capital investment in 2008 to ensure long-term supply and capacity availability. The system's current and future capital needs are primarily to address area growth, with several intermittent larger projects that are ably paid for with existing and growing cash.

In addition, management restricts \$3.5 million of cash annually solely for R&R so that resources are always available to meet capital needs as they may arise. Fitch is comfortable with the level of capital investment based on the system's abundance of available cash, ample debt-issuance capacity, and affordable rate structure that would allow for additional revenue growth if necessary.

LOW CUSTOMER CHARGES

The average residential customer bill of \$60 for combined service assuming 7,500 gallons of use is affordable at 1.5% of median household income (MHI). Rates should stay competitive as the county has a very manageable capital program that is expected to be funded with cash and connection fees. Rates have not been raised since 1999, and though management has no plans to raise them in the financial forecast, it is entitled to do so per a rate resolution should the necessity arise.

ABUNDANT WATER SUPPLY AND SOUND INFRASTRUCTURE

The county's water and sewer system provides services to a mostly residential customer base of approximately 47,000 water, and 27,000 sewer accounts as of fiscal 2015. There is no customer concentration, and despite recent economic and housing market weakness, the county's mostly residential customer base has been relatively stable.

Water is supplied through various wells from the Floridan Aquifer, with treatment provided by one of two county-owned treatment facilities. The water treatment plants have a combined 20.1 million gallons per day (mgd) of treatment capacity, which is more than sufficient to meet the system's average daily demand in fiscal 2015 of 9.2 mgd. Water use is regulated by the St. Johns Water

Management District through a consumptive use permit that expires in 2031. Management believes current supply sources will be capable of meeting the county's long-term demand through at least 2030.

Wastewater is treated at one of four regional treatment plants, with a combined current treatment capacity of 12.9 mgd. Average daily flow for the system is just 4.5 mgd, leaving plenty of treatment capacity to meet future growth. Effluent is treated to 100% re-use standards, and as a result the county does not expect to face significant capital or other regulatory compliance costs related to numeric nutrient mandates for effluent discharged into local surface water.

STABLE LOCAL ECONOMY

The county's economy continues to see improvement following the economic downturn, categorized by higher consumer spending and increases in tax rolls, sales tax and building permit revenues, and a decline in foreclosure rates. The county's unemployment rate has declined to 6.5% as of October 2016, yet remained higher than that of the state (4.8% as of November 2016) and nation (4.4% as of November 2016). Finally, the county's MHI is on par with the state and just over 10% below the national average. However, individual poverty rates are slightly more favorable than the state and nation.

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Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
<https://www.fitchratings.com/site/re/750012>
U.S. Water and Sewer Revenue Bond Rating Criteria (pub. 30 Nov 2016)
<https://www.fitchratings.com/site/re/890402>

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