

ISSUER COMMENT

25 October 2021

RATING

Revenue ¹

Aa1 No Outlook

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Seacoast Utility Authority

Annual Comment on Seacoast Utility

Issuer Profile

Seacoast Utility provides water and wastewater service to parts of Palm Beach County, Florida. The county as a whole has a population of 1,465,027 and a moderate population density of 742 people per square mile. The county's median family income is \$78,370 (2nd quartile) and the August 2021 unemployment rate was 4.7% (3rd quartile) ². The authority receives its water supply from several surficial aquifer well fields, Floridan Aquifer deep wells and through interconnects with Palm Beach County Water Utilities. Raw water is treated at its plant and distributed via a series of water mains. Western portions of the authority's service area are serviced with treated water and wastewater services through interconnects with Palm Beach County Water Utilities. Eastern service area customers are serviced by the authority's wastewater system, which collects wastewater via a network of gravity sewer lines, manholes, force mains and wastewater pump stations.

Credit Overview

Seacoast Utility's credit position is very strong and its Aa1 rating is above the US water and wastewater systems median of Aa3. Key credit factors include a very wealthy service area, a moderately large system size and ample liquidity. It also reflects a modest debt profile and healthy debt service coverage.

System Characteristics: Overall, Seacoast Utility has an exceptionally strong system profile, which is slightly favorable with respect to the Aa1 rating assigned. Median family income equates to a robust 306.8% of the US level. Favorably, the system size, measured as operating and maintenance expenses (\$28.1 million), is above the US median.

Financial Strength: The financial position of Seacoast Utility is superb and is relatively strong in comparison to its Aa1 rating. Days cash on hand (1,007 days) is excellent and greatly exceeds the US median. Also, debt to operating revenue (0.75x) is very strong and is well below other Moody's-rated water and wastewater systems nationwide. The coverage of annual debt service by net revenues (2.8x) is solid and is above the US median.

Legal Provisions: Legal provisions, which typically include a rate covenant requiring a minimum of 1.0x coverage of debt service or more, are adequate across this sector.

Sector Trends - Florida Water and Sewer

Water, sewer and storm water systems in Florida tend to be well-maintained and are in line with the national average with respect to asset condition, yet still need ongoing maintenance. Financial metrics are generally stronger than US medians. Both median debt service coverage (2.5 times) and median liquidity (535 days cash) are of Aaa-caliber quality. Utilities have an average median debt to operating revenues (2.1 times) that is higher than

the national median. Water supply in Florida is constrained, and many water utilities face supply constraints in the near to medium term. Florida utilities have unlimited rate-setting autonomy, which supports stability in financial operations.

EXHIBIT 1

Key Indicators ^{3 4} Seacoast Utility

Credit Metrics	2016	2017	2018	2019	2020	US Median	Credit Trend
Annual Debt Service Coverage (x)	2.51x	2.46x	2.18x	2.75x	2.76x	2.30x	Stable
Days Cash on Hand (Days)	1,156	1,066	1,045	1,108	1,007	467	Weakened
Debt to Operating Revenues (x)	1.6x	2.0x	1.9x	1.6x	0.7x	2.1x	Improved
Median Family Income (% of US Median)	234%	217%	217%	307%	307%	90%	Improved
Remaining Useful Life of Capital Assets (Years)	15	15	15	15	15	26	Stable

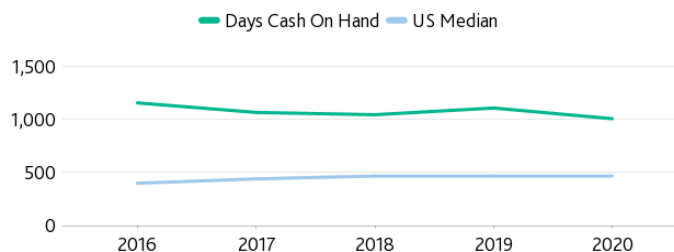
Debt and Financial Data (\$'000s)	2016	2017	2018	2019	2020	US Median
Net Funded Debt	\$84,396	\$110,196	\$102,889	\$94,744	\$44,648	\$59,249
Total Revenues	\$54,453	\$57,900	\$58,456	\$66,420	\$64,614	\$33,080
Operating and Maintenance Expenses	\$22,271	\$22,560	\$25,188	\$25,465	\$28,113	\$18,476
Net Revenues	\$32,183	\$35,340	\$33,268	\$40,955	\$36,501	\$13,916
Debt Service	\$12,805	\$14,390	\$15,268	\$14,893	\$13,203	\$5,805

Governance/Legal Provisions	Score
Rate Management	Aa
Regulatory Compliance and Capital Planning	Aa
Rate Covenant	Baa
Debt Service Reserve Requirement	Aa

Source: Moody's Investors Service

EXHIBIT 2

Days cash on hand has decreased from 2016 to 2020

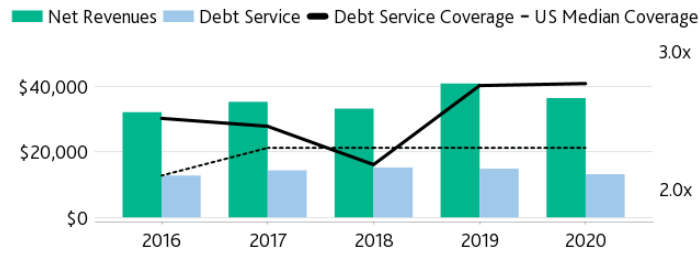


Source: Moody's Investors Service

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EXHIBIT 3

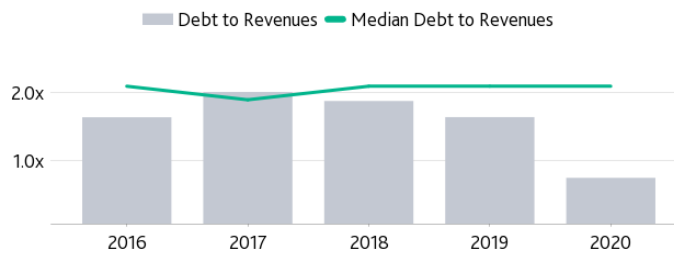
Debt service coverage increased from 2016 to 2020



Source: Moody's Investors Service

EXHIBIT 4

Debt to operating revenues decreased from 2016 to 2020



Source: Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the rating of the senior most lien on the relevant pledged revenues. Some utilities have bonds separately secured by distinct revenue sources. For these utilities, the rating referenced in this report is the senior most rating only on the relevant revenue pledge (e.g., water); the utility could have a higher rating on a different type of revenue bond (e.g., sewer).
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 Moody's calculations of various statistics can be different than calculations reported in audited financial statements or offering documents. Moody's makes standard adjustments to reported financial data, to facilitate comparisons across issuers. For definitions of the metrics in the Key Indicators Table, see our [US Municipal Utility Revenue Debt](#) methodology.
- 4 The medians come from our most recently published municipal utilities medians report, [Medians - Rate increases support stable financial metrics in 2019 \(May 2021\)](#).

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