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Summary:

Erie County Water Authority, New York; Water/Sewer

Primary Credit Analyst:
Scott Winrow, New York 212-438-4725; scott.winrow@spglobal.com

Secondary Contact:
Edward R McGlade, New York (1) 212-438-2061; edward.mcglade@spglobal.com

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Summary:

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Credit Profile		
US$36.375 mil wtr rev rfdg bnds ser 2016 due 12/01/2036		
Long Term Rating	AA+/Stable	New
Erie Cnty Wtr Auth wtr		
Long Term Rating	AA+/Stable	Affirmed
Erie Cnty Wtr Auth Fourth Resolution wtr		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA+' rating to Erie County Water Authority (ECWA), N.Y.'s series 2016 water revenue refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the authority's previously issued Fourth Resolution water revenue bonds. The outlook is stable.

The rating reflects strong economic indicators and extremely strong financial metrics, as well as the application of our revised criteria, "Rating Methodology And Assumptions For U.S. Municipal Waterworks And Sanitary Sewer Utility Revenue Bonds," published Jan. 19, 2016, on RatingsDirect. In addition, the rating reflects the combination of a very strong enterprise risk profile and an extremely strong financial risk profile.

The enterprise risk profile reflects our view of the system's:

- Service area participation in the broad and diverse Buffalo-Cheektowaga-Niagara Falls metropolitan statistical area (MSA) economy;
- Very low industry risk as a monopolistic service provider of an essential public utility;
- Affordable rates in the context of the service area's income levels; and
- Strong operational management practices and policies.

The financial risk profile reflects our view of the system's:

- Extremely strong historical all-in debt service coverage (DSC) metrics that we believe the utility will continue to produce in the near term;
- Extremely strong liquidity position that we believe is sustainable in the near term, despite using cash to fund capital needs;
- Low leverage position with a debt-to-capitalization ratio of about 17%; and
- Strong financial management practices and policies.

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Net revenues derived from the system secure the parity bonds. We believe bond provisions are credit neutral. We understand proceeds will be applied to refund the authority's series 2007 bonds and 2012 bonds (privately placed) outstanding, as well as pay costs associated with the issuance of the series 2016 bonds.

Enterprise Risk

Our assessment of the system's enterprise risk profile as very strong reflects the ECWA's participation in the broad and diverse Buffalo-Cheektowaga-Niagara Falls MSA, very low industry risk, affordable service rates, and strong operational management practices and policies.

We consider Erie County's economy adequate, with a 2015 estimated population of 920,426. The county encompasses more than 1,000 square miles in western New York, including Buffalo, the second-most-populous city in the state, as well as the county seat. With its position on Lake Erie and the St. Lawrence Seaway, the county used to be a manufacturing hub, particularly for steel. As such, the economy was hit hard over the past several decades with the manufacturing decline. However, in January 2012, the governor announced a $1 billion, multiyear incentive package for Buffalo targeted at large investments in growth industries. The county has also benefited from more than $100 million in grant funding awarded to the Western New York Regional Economic Development Council for workforce, infrastructure, and commercial development. We believe the county has continued to experience the ancillary benefits from this investment, which has led a number of firms to invest within the county including, but not limited to: Welded Tube Of Canada Corp., FedEx, and General Motors Co. As a result, the county's recent population decline has stabilization, with the population increasing to an estimated 920,426 in 2015 from 915,876 in 2012. The education and health care sectors remain stable employment drivers within the county, leading to a favorable 4.4% unemployment rate for May 2016. We consider the county's wealth levels good with the county's 2015 median household effective buying income at 94% of national levels.

The ECWA operates and manages a regional water supply and distribution system primarily in Erie County. The authority's water supply comes from Lake Erie and from the east branch of the Niagara River. The authority's Sturgeon Point Treatment Plant is approximately 15 miles south of the City of Buffalo in the Town of Evans and draws water from Lake Erie. The ECWA's Van de Water Treatment Plant is in the Town of Tonawanda and draws water from the Niagara River. In addition to obtaining water from Lake Erie and the Niagara River, the authority has emergency interconnections with the water distribution systems of the City of Buffalo, the Town of Tonawanda, and the Village of Akron. These interconnections can be used during emergencies to supply limited amounts of water between the Authority and the connected municipality. These two water treatment plants are capable of producing a combined total of 156 million gallons per day (mgd) based on current water withdrawal permits and design capacities. The average water production for these two facilities in 2015 was 70.53 mgd.

The authority provides water to more than 550,000 people in Western New York, which includes Erie County and parts of Chautauqua, Cattaraugus, Wyoming, and Western Genesee counties. As of fiscal 2015, receipts from residential customers accounted for 53% of total operating revenue, while nonresidential customers accounted for 47%. The system has what we consider a relatively diverse customer base with no concentration among its largest private and public customers. The system's 10 largest private customers and public customers accounted for 3.8% and

5.2% of total billings, respectively, in fiscal 2015.

In fiscal 2015, the authority provided water on a direct retail, bulk sale, and lease-managed basis to 168,637 customers, of which 158,579 (94%) were residential. The total number of ECWA customers has increased from 121,731 in 1996 because of additional customers from the acquisition of smaller municipal systems and population outmigration from urban areas. The ECWA's customer base continues to increase despite the drop in population in the greater Western New York region. From 2000 to 2015, the number of customers increased about 25%, while the population of Erie County decreased about 5%.

The ECWA has complete autonomy in terms of rate-setting, and rates are affordable given area income levels. An average monthly residential water bill is $25.57, based on 6,000 gallons water rates that went into effect in 2016. The authority increased metered water rates in 2014, 2015, and 2016, when rates were increased 1.4%, 1.7%, and 3.9%, respectively. Management raised rates to counter lower water consumption, increased cost pressures such as employee benefits and energy costs, and supporting pay-as-you-go capital projects. The ECWA's rate structure is tiered in terms of residential and industrial usage, and the authority bills some customers monthly and others quarterly, depending on usage. The authority's billing collections rate is consistently high at about 100%.

Water sales (by gallons) has been generally declining in recent years. Management attributes this to individual conservation efforts and changes in federal and state laws and regulations that require appliances to use less water. After decreases in billed water consumption of 2.0%, 7.8% and 2.5% in 2014, 2013, and 2012, respectively, billed water consumption remained relatively flat in 2015. Water sales accounted for 99% of the authority's total operating revenues in 2015, which compares favorably with historical levels. Although water consumption decreased about 12% from 2012 to 2015, total water sales increased about 6% due to rate increases and the number of customers served is up about 5%.

We have assigned an operational management score of '1' on a scale of '1' to '6', with '1' being the strongest. We view the system's operational management as strong. The system has a track record of converting long-term strategy into constructive action and managing its needs in a methodical manner. The system has ample operational capacity to meet demand during the long term horizon.

Financial Risk

Our assessment of the system's financial risk profile as extremely strong reflects the authority's historically extremely strong DSC, extremely strong liquidity, and strong financial management framework.

The ECWA's financial performance, as measured by annual DSC and liquidity, has been what we view as consistently strong. From 2010 to 2015, all-in DSC was near or above 2.00x. In 2015, we calculate all-in DSC at 2.4x, a level we consider extremely strong. Due to lower consumption and rising repair and infrastructure costs, the authority adopted an infrastructure investment charge with the 2011 budget, implementing an infrastructure investment charge of $3.00 per quarter. The charge increased to $15.45 per metered account per quarter from $12.00 in January 2015. We expect DSC to remain strong. Financial projections from 2016 through 2020 show DSC near or above 2.0x, levels we consider extremely strong. The authority bases its projects on the 2016 annual budget, assumed increasing water rates by 3.9%

each year for 2017 to 2018 and the infrastructure investment charge by $5.10 per year for 2017 to 2018, a gradual increase in operating and maintenance expenses, and level or declining annual debt service expenses. The board needs to approve these rate increases. With debt service on current bonds significantly decreasing (due to retirements) in the near term, we expect that the authority will seek additional debt to finance capital needs within the next five years.

The ECWA has historically maintained what we view as an extremely strong liquidity position, which we expect to continue. More specifically, fiscal year-end unrestricted cash and investment balances have ranged from $17.7 million to $29.3 million from 2010 to 2015, providing no less than 187 days' cash on hand. For fiscal year-end 2015 (Dec. 31), the authority had $29.3 million or 256 days cash on hand, which it expects to maintain at this level at the end of 2016. The ECWA, however, is planning to use a portion of its cash reserves to finance its capital improvement plan. As a result, projected year end unrestricted cash and investment balances from 2016 to 2020 drop to a low of $20.3 million in 2018, a level we consider strong. Following 2018, we will likely see cash levels increase to about $24 million in 2020. Financial policies that the board reviews and adopts annually include an internal DSC target of no less than 1.35x and maintaining a year-end unrestricted cash balance that is no less than 20% of gross revenues.

Following the 2016 bond issuance, the authority will have about $63 million revenue debt outstanding. In our view, the system's debt-to-capitalization ratio will be low, at about 17%. Following the 2016 issuance and refunding of the 2012 privately placed bonds, management represents that it will not have any direct purchase obligations or bank loans outstanding.

Based on our financial management assessment, we view the system to be a '1' on a scale of '1' to '6', with '1' being the strongest. We view the system as strong, meaning policies are embedded and likely sustainable. Long-term financial planning is detailed and reasonable. Detailed investment and debt management practices are examples that risk management practices are diligent and thorough. Capital planning is also detailed with a focus on not only the strategic vision, but financing plans for the next five years of projects. The authority estimates about $98 million in cash-funded capital improvement projects over the next four years. We assess this capital plan to be manageable given the financial profile, debt service structure, and planned rate increases. We expect additional debt issuance within the next five years to support the capital plan as current debt obligations retire.

Outlook

We expect the outlook to remain stable over the two-year outlook period. Although we expect the system to draw down its cash for capital needs, we assess that cash levels will likely remain strong and in line with the current rating level. We also expect that all-in DSC levels will remain extremely strong.

Upside scenario

We do not expect to raise the rating within the two-year outlook period given the adequate service area economy and the authority's plans to draw down cash to fund its capital needs.

Downside scenario

We could lower the rating if cash reserves drop to levels we no longer consider very strong, coverage does not stay at levels we consider extremely strong, or the system significantly increases its debt burden without making adjustments to operating revenues.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.