Gainesville, FL, 2019A&B Utility System Revenue Bonds Rated 'AA-'; Outlook Stable

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NEW YORK (S&P Global Ratings) Feb. 28, 2019--S&P Global Ratings assigned its 'AA-' long-term ratings to the city of Gainesville, Fla.'s $186.5 million utility system revenue bonds, series 2019 A (tax-exempt) and 2019 B (taxable), issued for the Gainesville Regional Utilities (GRU). The outlook is stable. At the same time, S&P Global Ratings affirmed its 'AA-' rating on parity obligations outstanding.

S&P Global Ratings also affirmed its 'AA-/A-1' ratings on variable-rate demand obligations series 2005C and 2006A, which have liquidity support from Landesbank Hessen-Thueringen Girozentrale, and its 'AA-/A-1+' rating on a variable-rate demand obligation series 2007A with liquidity support from State Street Bank and Trust.

"The rating reflects our opinion of a very strong enterprise risk profile and a very strong financial risk profile," said S&P Global Ratings credit analyst Jeff Panger. Key rating factors include a substantial amount of debt that fuels uncompetitive rates, although robust financial metrics off set this.

Bond proceeds will refinance commercial paper, replenish utility plant improvement funds, refund debt outstanding, and provide about $81 million for combined system projects.

GRU operates a combined utility system that includes electric (72% of operating revenue), water (9%), sewer (12%), gas (5%) and telecommunication (2%) services. The utility serves the City of Gainesville and unincorporated parts of Alachua County, Fla. We believe that the depth of the service area, solid management and planning, and good coverage and liquidity support the rating, while high rates from a substantial debt burden are a drag on credit quality.

The stable outlook reflects our view that the acquisition of Gainesville Renewable Energy Center, with which GRU had a costly power purchase agreement, has allowed the utility to mitigate further rate stress and enables it to achieve organic fixed cost coverage levels--without recurring rate-stabilization transfers--that we consider very strong and necessary to support the rating.

We do not expect to raise the rating over the next two years. In our view, while the utility's financial forecast suggests modest strengthening of fixed cost coverage levels, they are not significant enough to offset other credit weaknesses, including high rates (which constrain revenue-raising flexibility); and high debt levels (which limit financial flexibility).

We could lower the rating if fixed charge coverage falls short of forecasted levels absent recurring transfers that create rolling coverage. We could also lower the rating if debt-to-capitalization increases to a level we consider vulnerable.

Primary Credit Analyst:	Jeffrey M Panger, New York (1) 212-438-2076; jeff.panger@spglobal.com
Secondary Contact:	Scott W Sagen, New York (1) 212-438-0272; scott.sagen@spglobal.com