

# RatingsDirect®

---

## Summary:

# Cape Coral, Florida; Water/Sewer

### **Primary Credit Analyst:**

Scott W Sagen, New York (1) 212-438-0272; scott.sagen@standardandpoors.com

### **Secondary Contact:**

Corey A Friedman, Chicago (1) 312-233-7010; corey.friedman@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Cape Coral, Florida; Water/Sewer

### Credit Profile

#### Cape Coral util (Southwest 1 Area) util

*Unenhanced Rating*

BBB+(SPUR)/Stable

Upgraded

## Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Cape Coral, Fla.'s special-assessment debt one notch to 'BBB+' from 'BBB'. The outlook is stable.

The upgrade reflects our opinion of the utility's continued good financial performance, evidenced by its consistent maintenance of good senior-lien debt service coverage (DSC) and adequate total DSC, which we consider sustainable due to a lack of additional water and sewer revenue debt plans.

The rating reflects our opinion of the city's:

- Water and sewer system's credit quality,
- Subordinate position of its utility fund's obligation to make debt service payments, and
- Bond provisions that include a debt service reserve funded at maximum annual debt service (MADS) upon issuance and satisfied by a surety policy.

The city's agreement to pay debt service from water and sewer system net revenue if special-assessment revenue is insufficient to cover debt service and replenish debt service reserve shortfalls ultimately backs the bonds.

Special-assessment revenue collected in the city's special-assessment districts also secures the bonds.

Special-assessment revenue from different assessment areas secures each bond series. The rating also reflects our assessment of the additional security provided by the system's agreement to make up any debt service insufficiencies from net revenue.

Cape Coral renewed its capital-intensive utility expansion plan in fiscal 2012; this will continue the system's expansion into additional areas citywide. Officials plan to fund this water, sewer, and irrigation service to nearly 7,000 lots, including 3,200 new households, in fiscal 2015. Construction will begin in fiscal 2015 at an estimated project cost of \$137 million, funded with state-revolving fund loans secured by special tax assessments.

City officials recently indicated the system provided roughly \$300,000 to support annual special-assessment debt service in fiscal 2012 after a customer did not pay. We, however, understand officials did not tap debt service reserve funds. In our view, current-year special-assessment collections were sufficient to meet fiscal 2013 debt service requirements. Combined net water and sewer revenue and special-assessment revenue provided, what we consider, a thin 1.08x total DSC, including special-assessment debt, in fiscal 2013.

The system provided less than \$50,000 in support of special-assessment debt service in fiscal 2014. City officials

believe special-assessment increases will limit the system's potential future debt service support. In addition, financial projections through fiscal 2018 indicate the maintenance of \$500,000 in a contingency reserve for special-assessment debt. We recognize Cape Coral will assume responsibility in the event of default on special-assessment bonds outstanding.

Cape Coral's contractual obligation to make debt service payments is subordinate to the payment of the system's senior- and subordinate-lien debt, and it does not constitute a lien or pledge of net revenue. Should net revenue be insufficient to make debt service payments, we understand the city would draw down from the debt service reserve, satisfied by a surety policy, which it funds at MADS. Cape Coral also agreed to make payments from special assessments and net revenue to reestablish the debt service reserve as soon as possible but no later than one year from the drawdown. The city further agreed to fix, establish, and maintain such rates and collect such fees, rates, and other charges to make up any debt service insufficiencies and pay any such policy costs.

Cape Coral has about \$140.5 million of special-assessment bonds outstanding issued for specific service area improvements. Special assessments collected in these areas secure these bonds, but a subordinate-lien pledge on utility system revenue also backs the bonds. To date, there does not appear to have been any financial effect on the utility system; the system's annual exposure, however, could be approximately \$14.9 million, or another 47% of the current annual debt service it is responsible for already.

## Outlook

The stable outlook reflects Standard & Poor's opinion of Cape Coral's improved finances, evidenced by the city's consistent maintenance of good senior-lien DSC following regular rate adjustments. City officials believe special-assessment increases will limit the system's potential support of annual special-assessment debt service. In addition, the city's financial projections through fiscal 2018 indicate the maintenance of \$500,000 in a contingency reserve for special-assessment debt, providing financial flexibility. Due to the system's lack of additional debt plans and, what we consider, stable finances, we do not expect to change the rating over the outlook's two-year period.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

### Ratings Detail (As Of June 24, 2014)

#### Cape Coral util imp assess (Southwest 4 Area) util

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
--------------------------	-------------------	----------

#### Cape Coral wasewtr & irr

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
--------------------------	-------------------	----------

#### Cape Coral (Southwest 2 Area) util

**Ratings Detail (As Of June 24, 2014) (cont.)**

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).