

RatingsDirect®

Summary:

Providence Water Supply Board, Rhode Island; Water/Sewer

Primary Credit Analyst:

Geoffrey E Buswick, Boston (1) 617-530-8311; geoffrey.buswick@standardandpoors.com

Secondary Contact:

Scott D Garrigan, Chicago (1) 312-233-7014; scott.garrigan@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Providence Water Supply Board, Rhode Island; Water/Sewer

Credit Profile

Providence Wtr Supply Brd ICR

Long Term Rating

AA-/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'AA-' issuer credit rating (ICR) on Providence Water Supply Board (PWSB), R.I.'s revenue bonds. The outlook is stable.

The 'AA-' rating reflects our assessment of the following factors:

- A large and diverse service area that centers on Providence, R.I., but supplies potable water to 17 of the state's 39 municipalities;
- Very strong debt service coverage and consistent financial operations;
- Low debt-to-plant ratios; and
- Limited additional debt needs.

We believe mitigating factors include a lack of autonomous rate-setting authority.

Financial operations have been stable, despite a Rhode Island economy with sustained high unemployment, through and since the Great Recession. PWSB has maintained what we view as strong debt service coverage (DSC) levels. Coverage at fiscal year-end 2013 (June 30) was 4.46x, and unaudited fiscal year-end 2014 appear to have declined slightly, although they are what we consider still strong at 4.29x. The board's trust indenture for its debt requires the board to take action to maintain DSC of at least 1.25x, but the board cannot raise rates without Rhode Island Public Utility Commission (PUC) approval. If the utility projects that rates and charges will not likely meet the coverage level, the board will take the necessary steps to recover the deficiency, including making an emergency request to the PUC. The commission, an independent state-level body, regulates water rates and charges for all public utilities in Rhode Island. The lack of autonomy and ability for the board to raise rates as needed could reduce revenue-raising flexibility because a rate filing and actual implementation could take months. The most recent rate filing took effect December 2013.

The monthly residential water bill based on 1,000 cubic feet of usage plus the state surcharge and service charge (based on size of meter) is \$38.87, which, according to management, is the lowest cost of water of any regulated entity in the state (in one instance less than half another provider's average charge). The rate for wholesale customers is \$1,731 per million gallons, or \$12.95 per 1,000 cubic feet. Management expects the next rate filing in March 2016, but it will be no later than December 2016.

System liquidity is the current board's priority and has increased in each of the past three years. Simply looking at unaudited fiscal year-end 2014 unrestricted cash and investments of \$5.9 million, or 52 days' operating expenses. But PWSB has a PUC-authorized revenue reserve of \$4.9 million, which when combined brings the days' cash amount to 96 days. Considering both the unrestricted cash and the revenue reserve at fiscal years-end 2012 and 2013, the days cash has increased from 61 days and 87 days, respectively. The board has an informal target of these combined funds attaining a 120 day liquidity position and will work to formalize a liquidity target in a policy. In addition, the board maintains about \$29 million in other restricted cash and investments mainly reserved for capital and infrastructure providing some relief in case of an unexpected emergency. Year-to-date in fiscal 2015, revenues and expenditures are tracking to the adopted approximately \$71.7 million budget.

The Providence Water Supply Board supplies water to roughly 600,000 people, or 60% of the state of Rhode Island's population. The system's water source is the Scituate Reservoir and the system has one treatment plant, which has a maximum daily production of 144 million gallons per day (mgd). There is ample capacity, with the average daily demand at 59.6 mgd in fiscal 2014 and finished water storage capacity at an estimated 3.5 days. The system serves the cities of Providence, Cranston, and the towns of Johnston and North Providence on a retail basis. In addition, it supplies water to 13 other cities and towns on a wholesale basis. The retail area has about 72,000 service connections providing 71% of operating revenues. Net accounts receivable have decreased in unaudited fiscal 2014 to 15.6% of operating revenue after being more than 21% in each of the previous three years. Management attributes this improvement to the change to monthly billing in January 2014 and a renewed effort in collections, including liens and shut-offs when needed.

Debt-to-plant ratios is what we view as low, at about 25%, and expect to remain low because the five-year capital improvement plan (CIP) focuses primarily on slight plant redesigns, distribution improvements and continuing the lead service replacement program. The system will fund most of the CIP on a pay-as-you-go basis, through restricted funds approved by the PUC and raised in the rate structure. The board also maintains a 20-year CIP, which it expects to update next in December 2015. On June 30, 2014, the water supply board had about \$74 million of revenue bonds or borrowings through the Rhode Island Clean Water Financing Agency (RICWFA) pool. In December 2014, the board expects to borrow an additional \$8 million through RICWFA to finance distribution system improvements.

Outlook

The stable outlook reflects Standard & Poor's expectation that the PUC will continue to approve the rate increases necessary for the water supply board's operations, capital needs, and debt service payments. The rating could face stress should the extended period of economic stress in the service delivery area begin to affect revenues. We could raise the rating a notch should the liquidity position and economic conditions, improve and management continues to address long-term policy expectations.

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

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at 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 acknowledgment 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 acknowledgment 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 (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and 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.