STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Berkeley County, South Carolina; Water/Sewer

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Summary:

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Credit Profile		
Berkeley Cnty comb util sys rev bnds ser 2014 due 06/01/2034		
Long Term Rating	AA/Stable	Upgraded
Berkeley Cnty comb util sys rfdg rev bnds		
Long Term Rating	AA/Stable	Upgraded
Berkeley Cnty wtr & swr		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating to 'AA' from 'AA-' on Berkeley County, S.C.'s series 2014 combined utility system revenue bonds. At the same time, we raised the underlying rating (SPUR) to 'AA' from 'AA-' on the county's water and sewer system revenue bonds. The outlook is stable.

The rating action reflects our view of the city's stronger financial performance trend, which has resulted in stronger total debt service coverage and a strong liquidity position.

The rating reflects our assessment of the utility system's:

- Service area economy, which is part of the greater Charleston metropolitan statistical area (MSA), characterized by good income levels and favorable unemployment;
- Historically strong liquidity position, which has exceeded 500 days' cash on hand since fiscal 2009;
- Ample system resources and capacity to meet customer requirements for the next several years; and
- Volvo's opening of its first U.S.-based manufacturing plant, which will serve as large water and sewer customer for the county.

Partly offsetting the above strengths are the county's combined utility system's moderate leverage position, as well its reliance on growth-related revenue. When we exclude the system's growth-related revenue, the all-in annual debt service (ADS) coverage is at levels we consider adequate to good.

The net revenue, including pledged solid waste revenues of the county's combined utility system, operated by Berkeley County Water and Sanitation Authority (BCWS), which is a department of the county, secures the bonds. Following the maturity of the closed senior-lien series 1993 bonds on June 1, 2012, the authority's current outstanding water and sewer revenue bonds ascended to a senior-lien position. The series 2014 bonds are on parity with the utility system's remaining series 2005A bonds along with the series 2008A and 2008B state revolving fund (SRF) note and 2013 bonds. Furthermore, the authority will have approximately $5 million solid waste revenue bonds, which we do not currently rate, secured by a junior lien on solid waste system revenue.

On Aug. 23, 2010, county council enacted ordinances that combined the existing water and sewer system fund with the existing solid waste system fund for bond purposes, thereby allowing the county to use proceeds from prior or future bond issuance to fund capital projects for either of these systems. The ordinances became effective Nov. 12, 2010, during fiscal 2011. Given that this is the second bond issuance since the ordinance's enactment, the county also issued the 2013 bonds as combined utility system revenue bonds.

Berkeley County is in southeastern South Carolina, with neighboring Dorchester County to the west and coastal Charleston County to the east. The county benefits from participation in the Greater Charleston standard metropolitan statistical area, with many Berkeley County residents taking advantage of abundant employment opportunities in Charleston. The recent ground breaking of the first U.S. factory for Volvo, with production to begin in late 2018, will initially bring about 2,000 jobs within the next 10 years and 4,000 at build out. It is our understanding that the financial impact of the recent flooding in the county has totaled over $1.55 million, not including the capital expenses to the utility; however, the net cost to the county will be negligible after FEMA's reimbursements. County unemployment has trended near national averages. We view wealth as measured by median household effective buying income, as good at 100% of the national average.

The Berkeley County Water and Sanitation Authority is responsible for providing potable water and wastewater services to the majority of Berkeley County. In addition, the authority's solid waste operation serves approximately 65,000 single-family residences. The authority currently serves about 23,000 water and 40,000 sewer customers. The customer base has grown steadily since 2009, with average annual growth of 4% and 2.5% for water and sewer accounts, respectively. We view the customer base as very diverse because the 10 largest water and sewer customers accounted for only 10.6% and 8.1% of total water and sewer revenue, respectively, during fiscal 2014.

The sewer system covers six separate service areas, with three of these systems considered regional and the other three smaller in scope. The county's largest wastewater plant, the Lower Berkeley Wastewater System, has recently expanded to 22.5 million gallons per day (mgd) capacity from 18 mgd. In addition, the county also expanded its second-largest wastewater treatment plant, the Central Berkeley Wastewater Treatment Plant, to 3 mgd. Following these recent expansions, management projects treatment capacity at these two facilities will be sufficient through 2020.

The water system consists of about 572 miles of distribution lines, 10 elevated storage tanks, 2,852 fire hydrants, one metered connection to the Charleston Water System, and six metered connections to the Santee Cooper System, which has 34 mgd capacity and serves as the primary water source for the authority. Through its participation in the Lake Moultrie Water Agency (LMWA), the authority is permitted 43.1% (or 14.65 mgd) of the total Santee Cooper System capacity. The 2014 Bond proceeds will add about 4 mgd and provide sufficient capacity to 2030, according to county officials.

Solid waste system operations include nine convenience drop-off sites, 22 recyclable sites, and an 1,100-acre landfill although the system only uses 240 acres. Based on the level of available capacity, management indicates the landfill could accommodate an additional 100 years of growth. As reported by management, operations are going well, and there are currently no regulatory issues.

In our view, the authority's financial position remains healthy and demonstrates historically good-to-strong debt service coverage and liquidity metrics. Some reliance on growth-related revenue, such as impact fees and capacity reservation fees, remain, but to a lesser extent than in earlier years. Fees accounted for 13% of total 2014 operating revenue compared with 32% in fiscal 2007. Based on our calculation, inclusive of these fees, all-in ADS coverage was strong, in our view, ranging from 1.37x in 2011 to 1.7x in 2014, whereas coverage excluding fees was just adequate to good at 1.1x in 2011 and 1.25x in 2014. For unaudited fiscal 2015 we are calculating a strong 1.64x all-in ADS, when including connection fees, and a 1.16x all-in ADS without including connection fees. Based on management's projections through fiscal 2019, ADS coverage of parity debt should be around 2x, which we consider strong, assuming no additional debt issuance or rate increases. The rate covenant requires net revenues to cover annual debt service by at least 1.2x.

In our opinion, system liquidity remains a credit strength with $51.25 million, or more than 713 days' cash on hand, at fiscal year-end 2014, which has strengthened from $36.1 million, or more than 556 days' cash on hand in fiscal 2011. Management indicated they currently have $63 million or more than 917 days' cash on hand. Officials do maintain an informal liquidity policy or target of 50% to 75% of expenses; however, they expect to maintain similar cash levels for the current fiscal year.

System management recognized the importance of reducing reliance on growth-related fees and implemented a large water and sewer rate increase of about 30% in 2008 to enable user charges to generate sufficient debt service coverage. Although management reviews these rates annually, they have remained consistent since 2008, yielding a current monthly combined residential bill of $81.46 per 8,000 gallons, representing about 2.2% of county median household effective buying income, which we consider affordable. Management indicated they plan to raise water rates in 2016. In addition, the county charges user fees to finance its solid waste disposal program. It has imposed user charges since 1994 and last increased them in 2004. The current user fee for residential property is $75 per year, which the county treasurer bills as a line item on a property owner's annual tax bill. Once collected, the treasurer remits the fees to BCWS for deposit. Additional revenue of the solid waste system includes money from tipping fees, recyclable sales, grants, and the sale of methane gas and the associated renewable energy credits for carbon destruction. Tipping fees are currently $50 per ton for class III waste and $28 per ton for class II and wood waste.

The current water and sewer capital improvement plan (CIP) encompasses approximately $110.6 million in total capital project costs, with $33 million, $63 million, and $14.6 million delineated for water, sewer, and solid waste projects, respectively. According to management, the county will fund the CIP with remaining bond proceeds (the 2014 bond issuance), grant money, available reserves and revenue; however, the county has represented it does not have any immediate debt needs unless driven by significant economic developments. The authority entered into direct purchase agreements in conjunction with its 2002 and 2003 junior-lien solid waste debt. We do not view any material impact on the utility's debt due to the direct purchase agreement. The additional bonds test calls for net revenues for any consecutive 12-month period out of the last 24 greater than or equal to 120% MADS of proposed and existing debt. This can be adjusted for rate increases prior to issuance of the proposed debt.

Outlook

The stable outlook reflects our expectation that the system will sustain its healthy financial profile with user charges supporting strong coverage margins and the maintenance of strong liquidity. Management's implementation of timely and appropriate rate adjustments, as necessary, is pivotal to reducing the reliance on growth-related fees and enabling user charges to continue to support debt service at levels we consider strong.

Upside scenario

Although not expected within the two-year outlook horizon, we could raise the rating should there be a trend of sustainably stronger financials without growth-related fees as the system funds its capital program.

Downside scenario

Although we don't expect it, a lower rating is possible if the district's financial metrics were to materially deteriorate for any reason during the outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- 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
- USPF Criteria: Water And Sewer Ratings, June 25, 2007

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 20, 2015
- 2014 Review Of U.S. Municipal Water And Sewer Ratings: How They Correlate With Key Economic And Financial Ratios, May 12, 2014
- U.S. Municipal Water And Sewer Utilities 2014 Sector Outlook: Learning To Do More With Less, Jan. 9, 2014

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