

Rating Action: Moody's upgrades Pasco County (FL) Solid Waste Enterprise's rating to Aa3; outlook stable

Global Credit Research - 09 Jun 2017

Moody's has upgraded Pasco (County of) FL Solid Waste Enterprise's (the system) revenue bonds to Aa3 from A1. The outlook is stable.

New York, June 09, 2017 -- Summary Rating Rationale

Moody's Investors Service has upgraded Pasco (County of) FL Solid Waste Enterprise's (the system) revenue bonds to Aa3 from A1. The outlook is stable. The upgrade to Aa3 reflects the strength and predictability of the system's revenues, which are primarily derived from non-ad valorem special assessments on Pasco County's (Half-Cent Sales Tax, Aa3 no outlook) tax bill which are sufficient to cover debt service on a gross basis. Additionally, the rating considers the consistently strong financial metrics with approximately 3.00 times Moody's calculated net revenue debt service coverage ratio (DSCR), a significant cash balance and rapidly amortizing debt. The rating also considers the modestly sized, but growing, service area economy and the strong legal flow control which requires all processible waste generated in the county to be disposed of in the system. The rating also considers that more than 50% of operating revenues are generated by the waste-to-energy (WTE) facility, which has a favorable long-term power purchase agreement (PPA) that extends through the life of the debt term. However, this amount of revenue from the WTE facility exposes the system to operational risks and the WTE operator, Covanta Holding Corporation (Corporate Family Rating Ba2 negative), while having demonstrated a strong operating track record on the facility to date, is rated below investment grade.

Rating Outlook

The stable outlook is based on our expectation that waste tonnage and equivalent residential unit growth rates will continue to exhibit positive growth, generating continued improvement in financial metrics and affording further resiliency to the credit profile.

Factors that Could Lead to an Upgrade

Significant economic expansion in the system's service area, resulting in sustained growth in equivalent residential units and assessment revenues

Upgrade of the PPA off-taker

Factors that Could Lead to a Downgrade

Declines in tonnage levels

Remaining below the minimum tonnage delivery requirement to the WTE facility

Reduction of liquidity below 365 days cash on hand

Debt service coverage from assessment revenues alone drops below 2.0 times, and/or total net revenue debt service coverage falls below 1.75 times

Legal Security

The bonds are secured by a gross pledge of special assessment revenues and a net revenue pledge of all other solid waste system revenues. The rate covenant requires assessments to be at least 1.10 times annual debt service costs, and requires all other net revenues, including cash reserves, to cover all other costs. The additional bonds test requires assessment revenues to be at least 1.10 times the projected maximum annual debt service for the most recently ended fiscal year. The debt service reserve for the series 2011 bonds is cash funded and sized at the lesser of the standard 3-prong test. The series 2015 does not have a debt service reserve. The indenture also requires two additional funds, including an Operating Fund Reserve sized at 3 months of prospective annual operating expenses and a Renewal and Replacement Fund of \$2 million.

Use of Proceeds

Not applicable.

Obligor Profile

The solid waste system is an enterprise fund of the county of Pasco. The system's facilities include a 1,050 tons-per-day WTE facility, several landfills, and a transfer station. The WTE facility is operated by Covanta through a service agreement that expires in 2024.

Methodology

The principal methodology used in this rating was Waste-to-Energy Projects published in April 2012. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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