STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

August 13, 2010

Summary:

Susanville Public Finance Authority, California
Susanville; Gas; Water/Sewer

Primary Credit Analyst:
Peter V Murphy, New York (1) 212-438-2065; peter_murphy@standardandpoors.com

Secondary Credit Analyst:
Ian Carroll, San Francisco (1) 415-371-5060; ian_carroll@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Susanville Public Finance Authority, California Susanville; Gas; Water/Sewer

Credit Profile

Rationale

Standard & Poor's Ratings Services assigned its 'A' long-term rating to Susanville Public Finance Authority, Calif.'s refunding revenue bonds series 2010A, and its 'BBB+' rating to the authority's 2010B refunding revenue bonds, both issued for Susanville, Calif. The outlook is stable.

We understand that the bonds will refund all debt outstanding of Susanville's water and natural gas systems.

The bonds, which are limited obligations of the authority, are payable from and secured by revenues received by the authority from the city under two separate installment sale agreements. The city's obligation is limited solely to net revenues, consisting generally of the city's separate natural gas system and water systems net revenues. Through the use of a Marks-Roos pooling structure, authority revenues will pay both liens. However, the ratings are distinct, as the rating on the 2010B bonds reflects lower expected debt service coverage.

The ratings reflect our view of the city's:

- Role as a regional service center, though in a limited local area economy, centered on government and services;
- Adequate combined debt service coverage;
- Satisfactory system operations;
- Improved profitability of its gas system, and
- Strong liquidity of both systems.

Our view of the following partially offsets these credit strengths:

- The city's adequate income levels and low wealth indicators; and
- The gas system's competitive challenges, including competition with propane gas and oil suppliers for customers, although it is still in growth mode and began services less than nine years ago.

Net revenues from both the natural gas and water systems secure the 2010A bonds. They are senior to the 2010B bonds, which are secured by remaining revenues. The installment sales agreements contain what we consider adequate bond provisions, including a rate covenant of 1.25x annual debt service, and 1.05x including subordinate debt service. While the authority may issue no parity debt under the agreement, the water and gas systems can issue obligations on par with their obligations under the authority's 2010 financings, subject to an additional bonds test of 1.25x. A debt service reserve that approximates one year's debt service will be established for each series from bond proceeds.

The water and gas installment agreements require the establishment of separate rate stabilization funds as an additional source of liquidity. The water system's fund requirement is $3 million. The city has agreed to deposit funds on hand in the water rate stabilization fund, and to maintain a balance in said fund of that amount. The gas system's fund is targeted at maximum annual debt service, or approximately $1.7 million, a balance which the city has covenanted to maintain; however, the fund's balance will be built up from annual surpluses and no minimum annual deposit requirement or timetable.

The senior- and junior-lien issues were set to refund all debt outstanding of the water and gas systems, respectively. While the two debt issues benefit from the combined net revenues of both systems, the amount of senior-lien debt is lower. As a result, management's projections for debt service coverage also differs, with senior lien debt service coverage forecast at more than 4.0x and total debt service at about 1.4x.

The current financing enables Susanville to use the water enterprise's liquidity for the gas enterprise, which we believe has historically been weak. The water utility has covenanted to maintain at least $3 million in a water rate-stabilization fund and to maintain rates accordingly. The two enterprises remain separate, but if there is a deficiency in gas utility's ability to pay debt service, funds in the either the water or the gas rate stabilization fund would be available through the Marks-Roos debt pooling structure. The water utility debt service following issuance of the 2010 bonds will be about $700,000 annually, which is consistent with the debt service schedule in effect before the proposed restructuring. Gas utility debt service will initially be about $1.4 million per year, rising to about $1.8 million within 10.

Outlook

The stable outlook reflects our expectation that the gas system's recent improvement in profitability will likely be maintained, and that the water and gas systems will likely achieve self-supporting operating results and adequate debt service coverage.

Related Criteria And Research

- 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 RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.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.