NEW YORK--(BUSINESS WIRE)--Fitch Ratings upgrades the rating on Tampa, FL's (the city) approximately $240 million in outstanding water and sewer system revenue bonds to 'AAA'.

The Rating Outlook is revised to Stable from Positive.

SECURITY

The bonds are secured by a senior lien pledge of the net revenues of the city's water and sewer system (the system), including available connection fees.

KEY RATING DRIVERS

STRONG FINANCES, LOW DEBT SUPPORT RATING UPGRADE: The rating upgrade to 'AAA' from 'AA+' reflects the trend of very strong financial performance, and a moderating debt position. In addition, the system is capable of recovering the full cost of service, including capital spending needs and annual debt service (ADS), from existing rates.

AMPLE SYSTEM CAPACITY AND SUPPLY: The system benefits from a diverse and ample water supply consisting of system-owned surface water and back-up supply from Tampa Bay Water (TBW; rated 'AA+' by Fitch), a highly rated regional wholesale water supplier, and ample treatment capacity. Existing infrastructure is in a state of good repair and future capital needs focus on system renewal and replacement (R&R).

CONSERVATIVELY MANAGED DEBT: The debt burden continues to improve and capital needs are manageable. The city anticipates funding the capital program entirely from internal sources over the next five years, which is feasible given the sizable annual free cash flow (FCF). Debt carrying costs are low and existing debt amortizes rapidly.

FULL COST RECOVERY FROM RATES: Sizeable multi-year rate adjustments beginning in fiscal 2008 have greatly improved the system's revenue position and resulted in a trend of healthy debt service coverage (DSC) and FCF levels. Despite these increases, utility charges remain affordable. No rate increases are anticipated over the five year forecast.

LIQUIDITY TO REMAIN STRONG: The system's liquidity position continues to improve, providing significant financial flexibility. As of fiscal year-end 2013, the system's unrestricted cash and investments equated to 587 days of operations. Fitch expects healthy reserves will be maintained given the projected strong margins.

ONGOING ECONOMIC RECOVERY: Tampa remains the economic anchor for the region with a diverse and improving employment base.

RATING SENSITIVITIES

WELL MANAGED SYSTEM: Fitch expects the system's credit profile will remain strong given both historic and anticipated strong financial performance. The lack of additional debt plans is expected to yield continued improved debt metrics.

CREDIT PROFILE

The city of Tampa ('AA' implied GO rating by Fitch) is located in central Florida along the Gulf Coast. The city's utility system provides potable, reclaimed, and wastewater services to a mostly residential and retail customer base. Most customers live within Tampa's city limits; however, the system also serves portions of surrounding Hillsborough County (GO rated 'AAA' by Fitch), and provides wholesale sewer service to the city of Temple Terrace.

CONSERVATIVE FINANCIAL AND DEBT MANAGEMENT KEY TO RATING UPGRADE

Financial management of the system remains very strong evidenced by vastly improved financial margins and DSC in each of the past four fiscal years. After a dip in operating income in fiscal 2009, a result of recessionary pressures and a drop in demand, the system posted solid margins again beginning in fiscal 2010 due largely to multi-year rate increases adopted for both the water and sewer utilities. Rate increases helped produce an additional $56 million in operating revenues by fiscal 2012, a 37% increase from fiscal 2009. A slight decline in fiscal 2013 revenues due to wet weather is not concerning given the strength of the system's operating margins (near 50% for the past three years) and very strong DSC.

In fiscal 2013, senior lien DSC totaled a very healthy 4.3x, and all-in coverage, which includes subordinate lien state revolving fund loans, a still robust 3.2x. The city makes annual transfers to the general fund in the form of payments in lieu of taxes and franchise fees. Historically, the transfers have averaged 7% of gross revenues. A rise in operating revenues coupled with an increase in the franchise fee (from 4.6% in 2012 to the current capped 6%) resulted in a 50% increase in the transfer beginning in fiscal 2013, to $19.4 million.

Fitch notes the 2013 transfer was equivalent to a somewhat high 10% of gross revenues; nevertheless, coverage of all fixed payments (including the transfers) totaled a still very strong 2.6x, slightly outpacing the median all-in coverage ratio for 'AAA' water and sewer utilities of 2.4x (also including transfers). The system is able to afford the current city transfers and still fund operations, debt service and necessary capital needs from current rates. However, additional transfers for general fund operations could adversely impact financial performance and/or the system's ability to internally fund its capital program.

Liquidity is strong despite judicious pay-as-you-go capital funding and annual general fund transfers. Since fiscal 2008, the system has spent over $300 million on construction and acquisition of capital assets with only $110 million in new bonds (consisting of the series 2007 and 2011) issued over that time. Liquidity has more than doubled since fiscal 2008 to $164 million in 2013, which is equivalent to a robust 587 days cash on hand (the median days cash for 'AAA' utilities is 671).

A financial pro forma provided by the city's engineering consultant shows continued strong expected financial performance with all-in DSC above 2.8x (and above 2.3x including transfers) through fiscal 2017. Coverage will improve even further from these very healthy levels with a decline in ADS due to the maturity of several series of outstanding bonds, providing the system with significant out-year flexibility. By fiscal 2018, all-in DSC increases to 4.4x, and coverage of debt and transfers increases to 3.4x. The projections appear reasonable and include limited revenue growth, no rate increases and no additional debt. The capital plan calls for sizable annual pay-as-you-go funding, though strong excess annual cash flow should preserve the system's strong liquidity position.

DEBT BURDEN TRENDING LOWER WITH INTERNALLY-FUNDED CIP

The system has a total of approximately $290 million of bonds and loans outstanding as of fiscal 2013. Conservatively, the city has issued only a small amount of new debt over the past five years, opting instead to use a portion of its sizable annual financial margins to improve and upgrade the system. As a result, the debt profile is trending positive, with most debt ratios comparing favorably to 'AAA'-rated systems.

In fiscal 2013, debt totaled a manageable 29% of net fixed assets and $1,286 per customer ('AAA' median is $1,165). Debt carrying charges are a low 16% of gross revenues and amortization is above-average with 50% retired over the next 10 years. In addition to these favorable metrics, ADS is scheduled to decline significantly lowering debt carrying costs from roughly $25 million annually to just over $16 million in fiscal 2019.

The five-year capital improvement plan (CIP), totaling $218 million through 2018 will address various system R&R projects including upgrading and replacing transmission pipes, force mains and gravity sewer lines. The city anticipates it will fully fund the CIP from cash and annual cash flows, which is feasible given the approximately $40 million in excess FCF expected to be generated through the forecast. No new debt is currently expected, and as a result Fitch projects that debt will fall below $1,000 per customer by 2018.

SOLID OPERATING PROFILE AND LONG-TERM CAPACITY

In fiscal 2013, the system served roughly 500,000 residents through 127,000 water and 105,000 sewer connections. The customer base is roughly 90% residential and diverse with the leading 10 commercial customers for both systems, led by the Hard Rock Hotel, comprising only 5.8% of gross system revenues in 2013. The city of Temple Terrace is the largest customer, accounting for just 2% of total revenues.

The system's operating profile remains strong. Ample and diverse water supply and strong water and sewer treatment capacity are considered long-term credit strengths. Water is primarily derived from a city-owned reservoir from the Hillsborough River, providing the system with up to its permitted 82 million gallons per day (mgd) of raw water supply, far more than the fiscal 2013 average water demand of 68 mgd. Water is treated at the system's lone treatment plant with a capacity to treat up to 120 mgd. Tampa's water permit was approved by the Southwest Florida Water Management District in 2004 and is valid for 20 years. In addition to its own resources, the system benefits from being a member agency of Tampa Bay Water (TBW), a regional wholesale water supply agency rated 'AA+' by Fitch.

TBW provides the system with a supplemental source of finished water during periods of high demand (or drought), and is required to provide/sell the system as much water as it needs. The city is not obligated to purchase a minimum amount of water from TBW, and in fact purchases very little from TBW at present. However, Tampa is already well ahead of other large and mid-sized systems still searching for supplemental sources throughout the state and Fitch expects TBW will become an increasingly important water supply source as demand grows within the service area. All of TBW's members benefit from TBW's solid long-term capital and resource planning, which has provided members with a secure and long-term water supply.

The sewer system provides collection, advanced treatment, and disposal services. Treatment capacity at the system's main plant is 96 mgd, well above the average fiscal 2013 year daily flow of 61 mgd. The treatment plant's National Pollutant Discharge Elimination System permit is valid through November 2015.

LARGE REGIONAL ECONOMY DEMONSTRATING RECOVERY

Tampa's economy is large and diverse, and remains the economic anchor for central Florida with year-round tourism, an extensive transportation network, including the Tampa

International Airport and the Port of Tampa, cultural/recreation attractions, and a sizeable education and healthcare presence. The Tampa-St. Petersburg-Clearwater metropolitan statistical area (MSA) has experienced consistent year-over-year monthly employment gains since 2009, particularly in the professional and business, education and health, and leisure and hospitality sectors. BLS employment data for April and May (preliminary) of 2014 indicates 6.2% and 5.9% increases respectively in MSA jobs over the same months in 2012. As a consequence, the unemployment rate continues to decline dropping to 5.9% in April 2014 from 8.6% in April 2012.

Additional information is available at ' www.fitchratings.com '.

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from CreditScope.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 2014);

--'U.S. Water and Sewer Revenue Bond Rating Criteria' (July 2013);

--'2014 Water and Sewer Medians' (December 2013);

--'2014 Outlook: Water and Sewer Sector' (December 2013).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012

U.S. Water and Sewer Revenue Bond Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715275

2014 Water and Sewer Medians

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724358

2014 Outlook: Water and Sewer Sector

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724357

Additional Disclosure

Solicitation Status

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