

RatingsDirect®

Summary:

Lehigh County Authority, Pennsylvania; Water/Sewer

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Credit Profile

Lehigh Cnty Auth WS (City of Allentown Concession)

Long Term Rating

A/Negative

Outlook Revised

Rationale

S&P Global Ratings has revised its outlook to negative from stable on the Lehigh County Authority (LCA), Penn.'s series 2013 water and sewer revenue bonds related to the city of Allentown concession and affirmed its 'A' rating on the debt. The negative outlook reflects our opinion that the rating has at least a one in three chance of being lowered within the next two years.

We believe that the rating could come under pressure due to several events, still yet to be resolved. These include the following:

- There is potential litigation regarding historical revenue calculations for municipal wastewater service provided by Allentown.
- LCA has indicated the need to refinance its December 2018 bond payment and also indicated the need to potentially issue additional bonds to finance capital improvements. While these are, in our view, not necessarily negative credit factors, we currently are not aware of any specific amounts or defined amortization schedule for any additional debt that could be issued. Depending on the effects of any additional debt on our analysis of both future financial performance and rate affordability, the additional debt could have a negative effect on the rating.
- It is our understanding that LCA is seeking to extend the life of its authority to operate as a municipal authority from 2049 to at least 2063, which would coincide with the LCA and Allentown lease agreement term. It is also our understanding that the Lehigh County board has to approve this extension. Depending on when and to what extent the extension occurs, in our view LCA's long-term debt structure could be weakened since it is our understanding that LCA's life span effectively limits its outstanding debt to be retired within that time frame.
- LCA is considering moving to monthly from quarterly billing for its Allentown customers. Depending on how or if this new structure is implemented, it could have negative credit implications for either our analysis of future financial performance if the billing remains quarterly or our view of rate affordability if the billing is switched to monthly. We understand that a switch to monthly billing would generate additional revenues that would potentially offset future borrowing needs, but that maintaining affordability within the city is a concern for management.

LCA recently filed a continuing disclosure notice related to the release of its 2017 audited financial statements. The delay is due to GASB requirements related to pension and other postretirement benefits. While the delay is currently not a negative credit event, we will look for future disclosures to ensure that the financial statements are not being delayed for any additional reasons.

The bonds are secured by a pledge of revenues under the concession agreement, defined as all revenues derived from the operation of the concessioned system. Such revenues include service charges from all users net of any payments from a municipal customer allocated to its share of administrative order bond debt service, which are not secured by a pledge of the trust estate under the 2013 indenture.

LCA operates the Allentown water and sewer systems under a long-term lease as its City Division. The authority also operates Suburban Division water service areas which are primarily in western and northern Lehigh County, including all or portions of 15 municipalities and one municipality in Northampton County. It also owns wastewater collection and transportation facilities in western and northern Lehigh County.

Allentown, with an estimated population of 119,810, is in Lehigh County in the Allentown-Bethlehem-Easton MSA, which we consider to be broad and diverse. The city has a median household effective buying income of 70% of the national level. The county unemployment rate was 4.9% in March 2018.

The city is about 60 miles north of Philadelphia, and maintains its own employment base with such leading employers as:

- Lehigh Valley Hospital/Health Services (3,065 employees),
- Allentown School District (2,522), and
- Allied Personnel Services (2,196).

Outlook

The negative outlook reflects the factors indicated above.

Upside scenario

While we currently do not foresee any upward rating potential, we could revise the outlook back to stable if the events identified above are resolved in a fashion that do not introduce any additional credit risk commensurate with a lower rating.

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