

RatingsDirect®

Summary:

Bountiful, Utah; Retail Electric

Primary Credit Analyst:

Joseph Dow, Centennial (1) 303-721-4273; joseph.dow@spglobal.com

Secondary Contact:

Paul J Dyson, San Francisco (1) 415-371-5079; paul.dyson@spglobal.com

Table Of Contents

Rationale

Outlook

Summary:

Bountiful, Utah; Retail Electric

Credit Profile

Bountiful elec (AGM)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has affirmed its 'A+' underlying rating (SPUR) on the City of Bountiful, Utah's \$16.5 million series 2010 electric revenue bonds (federally taxable-issuer subsidy-recovery zone bonds). The outlook is stable.

The rating reflects our opinion of the light and power department's:

- Stable and diverse customer base, with above-average income levels, and the city's convenient location just 8 miles from Salt Lake City;
- Competitive rates; and
- Historically strong coverage and liquidity levels.

Partially offsetting the above strengths, in our view, is the department's relatively small size, which exposes it to fluctuations in revenues and expenditures.

The business profile score is '4' on a scale of one to 10, with '1' being the strongest score attainable. The business profile represents the department's competitive rates, stable economic base in its service territory, and low operational risk given the mostly transmission-and-distribution nature of the city's electric system. These factors are offset by the system's relatively small size and projected dip in liquidity coverage, although projections are based on conservative assumptions.

Net revenues of the city's light and power department secure the bonds.

Bountiful has a population of 43,651 (in 2016) and its light-and-power system serves 16,800 customers, of whom 92% are residential. The department's revenues and sales are also primarily residential (58% and 55%, respectively), which in our view represents a stable customer base, but there is a slight exposure to commercial customers, which comprise about 34% of both revenues and sales. The system serves a 14-square-mile area coterminous with the city, about 8 miles north of Salt Lake City. The city is the main retail and regional hub for south Davis County, and is easily accessible by Interstate 15. Bountiful's unemployment rate was 3.3% in 2016, and its median household effective buying income was 24% above the U.S. national average--which we believe is demonstrative of a stable local economy.

The department's customer base is not concentrated, with the 10 leading customers representing 23% of total operating revenues in 2017. The leading customer, Air Products Corp., represented 9% of total operating revenues. Management is unaware of any cutbacks or expansions among its top customers.

The system includes 230 miles of distribution-and-transmission lines, eight substations, and a 26-mile line to the city-owned Echo Hydroelectric Project. The department derives its energy supply from several sources, including contracts for 16-26 megawatts (MW) of power from the Colorado River Storage Project through 2024 (39% of its energy supply in fiscal 2017) and firm power purchases acquired through Utah Associated Municipal Power Systems (UAMPS) through 2022 (31% of its energy supply in fiscal 2017). It also has power sales agreements for zero to 30 MW of coal-based power from Utah's Intermountain Power Project (IPP) through 2027, via its membership in UAMPS and 5 MW of coal-based power from the San Juan Unit No. 4 in New Mexico through 2045. The city is not currently purchasing power from IPP, but San Juan coal-fired energy represented 12% of the department's energy in 2017. Other owned generation includes 32.3 MW from its own gas-fired plant, 4.5 MW from the Echo Hydroelectric Project, and 1.8 MW from the Pineview Hydroelectric Project. Spot-market purchases accounted for 8% of power supply in 2017.

According to management, 47% of resources (all hydro) were non-carbon emitting in 2017, but do not currently meet the state's definition for eligible renewable. Utah has a renewable portfolio standard of 20% by 2025. The department is working to get its Echo project counted as an official renewable resource, because of the improvements it has made with the Bureau of Reclamation. A small portion of the department's net metering program is also qualified as renewable energy. The department is looking at a few wind and solar projects to add to its resource portfolio in the coming years. It is also working with UAMPS on a nuclear project on the National Laboratories site near Idaho Falls, Idaho. UAMPS and NuScale have agreed to install a modular-designed reactor on the site. The department is looking for another participant to engage in this project, which management believes will likely cause delays.

Bountiful reviews rates annually during the budget process. The U.S. Energy Information Administration weighted average system rate versus the state rate was 96% in 2015, which we consider competitive. The department did not increase rates from 2014-2016, but it did raise its customer charge in fiscal years 2017 and 2018 by 1.5% and 3%, respectively, to fund capital projects. The city has no plans to raise rates, although management acknowledged it could increase rates to support its five-year capital improvement plan (CIP).

The city aims to fund its \$22.2 million CIP (annual expenses of between \$2.6 million and \$6.2 million) mostly through surplus revenues, unrestricted cash on hand, and, if necessary, future rate increases. Unrestricted cash totaled \$27.2 million in fiscal 2017, equal to 490 days of operations, and this includes the city's \$5.3 million balance in its rate stabilization fund. The conservative, in our view, 2018 budget and 2019-2022 projections show cash gradually decreasing to \$12.6 million, with the inclusion of planned annual capital expenditures. Overall, we view the department's liquidity position as very strong, and conservative budgeted and projected cash sufficient even after accounting for future annual CIP expenses.

Fixed-charge coverage, our measure of the ability of net cash from operations to cover both on- and off-balance-sheet fixed-charge obligations, was approximately 1.3x in 2017, a level that we consider good. The off-balance-sheet obligation reflects the department's capacity payments associated with purchased power, as well as annual transfers. Based on management projections, we calculate fixed charge coverage to decline to about 1.1x after 2017; however based on the department's track record of outperforming historical projections and conservative elements such as a lack of rate increases, conservative projected power and generation expenses, and no growth in customers, we believe the projected decline in liquidity and coverage metrics is not plausible.

Bountiful has a very low debt burden, with debt to capitalization of 15% in 2017 and has no plans to issue additional debt in the future.

Outlook

The stable outlook reflects our expectation that, over the next two years, the department will continue to adjust rates as needed to maintain strong financial margins and fund ongoing capital needs.

Upside scenario

We do not expect to raise the rating during the two-year outlook period due to the department's capital needs that could result in a decline in liquidity. In addition, the department's small size exposes it to fluctuations in revenues and expenditures.

Downside scenario

We could lower the rating if capital-spending needs accelerate, operating costs increase, or projections come to fruition and the department does not raise rates or adjust for capital costs to prevent material erosion of coverage and liquidity.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.