

ISSUER COMMENT

4 January 2019

RATING

Revenue ¹

Aa1 No Outlook

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City of Savannah

Annual Comment on Savannah Water & Sewer

Issuer Profile

Savannah Water & Sewer provides water and wastewater service to Chatham County, Georgia. The county has a population of 282,613 and a moderate population density of 645 people per square mile. The county's median family income is \$61,809 (2nd quartile) and the September 2018 unemployment rate was 3.2% (2nd quartile) ². The water system has two sources - Floridan aquifer and industrial and domestic water filtration plant and distributes via distribution lines. The sewer system consists of a collection system that collects and conveys sewage via a series of collection lines to the four treatment facilities.

Credit Overview

The credit position for Savannah Water & Sewer is very high quality, and its Aa1 rating is above the median rating of Aa3 for water and wastewater systems nationwide. Notable credit factors include a large system size, a stable service area with below average income levels, healthy debt service coverage, ample liquidity, an extremely small debt profile.

System Characteristics: Savannah Water & Sewer has a satisfactory system profile, however, this metric is weak in relation to its assigned rating of Aa1. The system size, measured as operating and maintenance expenses (\$43.6 million), is well above the US median. The service area's median family income equals a mere 65.8% of the US level, which is a credit weakness when compared to other Moody's rated systems nationwide.

Financial Strength: The system's financial position is superlative and is relatively strong with respect to its Aa1 rating. Both the coverage of the annual debt service by net revenues (6.6x) and the days cash on hand (1,092 days) are excellent and greatly exceed the US median. In addition, the coverage of the annual debt service provided by net revenues increased significantly between 2013 and 2017; coverage increased by more than two times in 2017 due to a reduction in annual debt service. Moreover, debt to operating revenues (0.42x) is well below other Moody's-rated water and wastewater systems nationwide.

Legal Provisions: Legal provisions, which typically include a rate covenant requiring a minimum of 1.0x coverage of debt service, are adequate for this sector. Of note, the system's rate covenant of 1.25x exceeds this level.

Sector Trends - Georgia Water and Sewer

Georgia utilities are typically well maintained and have an average age of plant. Financial metrics are generally solid. While debt service coverage (median of 2.1 times) is strong and slightly above the national median, liquidity remains below national medians, though at a still healthy 291 days. Debt burdens (median of 2.4 times operating revenues) are slightly above the national median, but are manageable. Water supply is ample and few systems

face supply constraints. All systems have unlimited rate setting authority, providing notable flexibility.

EXHIBIT 1

Key Indicators ³ ⁴ Savannah Water & Sewer

Exhibit 2

Key Indicators Savannah Water & Sewer

Credit Metrics	2013	2014	2015	2016	2017	US Median	Credit Trend
Annual Debt Service Coverage (x)	3.61x	3.71x	3.64x	3.00x	6.57x	2.10x	Improved
Days Cash on Hand (Days)	852	904	933	954	1,092	399	Improved
Debt to Operating Revenues (x)	0.8x	0.7x	0.5x	0.5x	0.4x	2.1x	Stable
Median Family Income (% of US Median)	70%	69%	69%	66%	66%	91%	Stable
Remaining Useful Life of Capital Assets (Years)	25	24	23	22	22	27	Stable

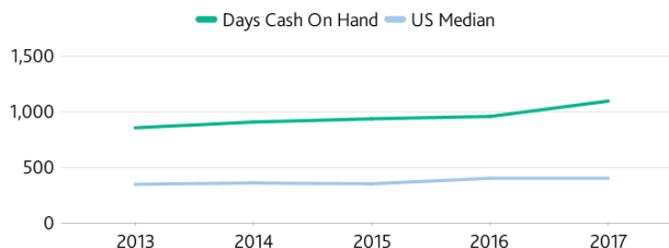
Debt and Financial Data (\$000s)	2013	2014	2015	2016	2017	US Median
Net Funded Debt	\$49,323	\$44,252	\$36,015	\$33,230	\$29,777	\$50,840
Total Revenues	\$64,378	\$68,013	\$66,850	\$69,008	\$72,191	\$28,306
Operating and Maintenance Expenses	\$39,638	\$40,622	\$42,941	\$42,613	\$43,625	\$15,859
Net Revenues	\$24,739	\$27,391	\$23,909	\$26,395	\$28,566	\$11,890
Debt Service	\$6,853	\$7,390	\$6,564	\$8,799	\$4,351	\$5,160

Governance/Legal Provisions	Score
Rate Management	Aaa
Regulatory Compliance and Capital Planning	Aa
Rate Covenant	Aa
Debt Service Reserve Requirement	Aa

Source: Moody's Investors Service

EXHIBIT 4

Days cash on hand has increased from 2013 to 2017

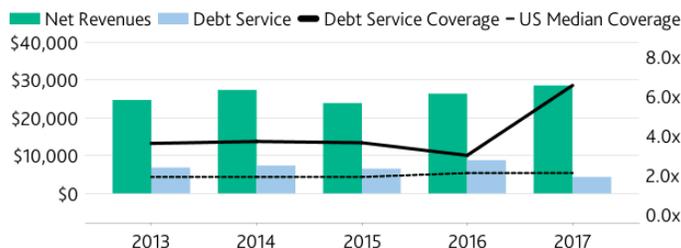


Source: Moody's Investors Service

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EXHIBIT 5

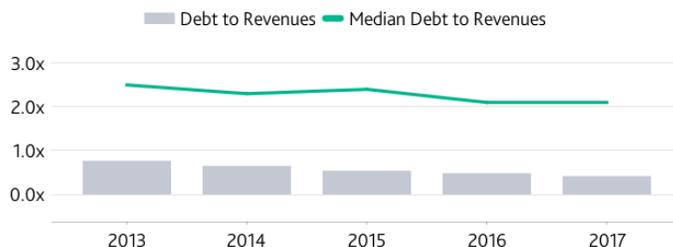
Debt service coverage increased from 2013 to 2017



Source: Moody's Investors Service

EXHIBIT 6

Debt to operating revenues decreased from 2013 to 2017



Source: Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the rating of the senior most lien on the relevant pledged revenues. Some utilities have bonds separately secured by distinct revenue sources. For these utilities, the rating referenced in this report is the senior most rating only on the relevant revenue pledge (e.g., water); the utility could have a higher rating on a different type of revenue bond (e.g., sewer).
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 Moody's calculations of various statistics can be different than calculations reported in audited financial statements or offering documents. Moody's makes standard adjustments to reported financial data, to facilitate comparisons across issuers. For definitions of the metrics in the Key Indicators Table, see our [US Municipal Utility Revenue Debt](#) methodology.
- 4 The medians come from our most recently published report, [Medians - Solid financial metrics, ability to raise rates underpin stable sector](#).

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