

Revenue
New Issue

North Hudson Sewerage Authority, New Jersey

Ratings

New Issue	
Sewer Revenue Refunding Bonds (Capital Appreciation Bonds), Series 2009A (Taxable)	A
Outstanding Debt	
Sewer Revenue Bonds	A

Rating Outlook

Stable

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New Issue Details

Sale Information: Approximately \$65,300,000 Sewer Revenue Refunding Bonds (Capital Appreciation Bonds), Series 2009A (Taxable), scheduled the week of Feb 23 via negotiation.
Purpose: Refund outstanding parity debt and cash fund a debt service reserve fund.
Final Maturity: Aug. 1, 2020–2040.

Related Research

- [2009 Median Ratios for Water and Sewer Revenue Bonds — Retail Systems, Jan. 28, 2009](#)
- [2009 Water and Sewer Sector Outlook, Jan. 12, 2009](#)
- [Focus on Housing, Dec. 15, 2008](#)
- [Water and Sewer Revenue Bond Rating Guidelines, Aug. 6, 2008](#)

Rating Rationale

- The North Hudson Sewerage Authority provides an essential service to a stable and diverse service area that benefits generally from its proximity to New York City.
- In addition to a pledge of net revenues of the authority, the bonds are secured by an unconditional and unqualified general obligation pledge by each member community to pay annual charges pursuant to a service agreement, which has not been called upon by the authority to date.
- The authority maintains a healthy degree of financial flexibility attributable to high liquidity levels and low rates.

Key Rating Drivers

- A continued trend of declining, though presently strong, cash balances due to the authority's periodic reliance on reserves to meet debt service coverage, as well further leveraging, will begin to erode the system's overall financial flexibility.

Credit Summary

The authority was established in 1989 to provide sewer conveyance and treatment services to four cities located in the northern part of Hudson County, NJ. The four municipalities include Union City, which accounts for 35% of annual flows, Hoboken, responsible for 31%, and West New York and Weehawken, which account for 26% and 8%, respectively. System assets consist primarily of about 100 miles of sewer mains and two wastewater treatment facilities that provide both primary and secondary treatment. Combined treatment capacity of 33 million gallons daily (mgd) compares adequately to average daily flows of 22.5 mgd in 2008. Effluent is disposed of through outfalls into the Hudson River. The authority, which entered into a 15-year operation and maintenance contract with a private operator in 1997, bills 21,000 accounts directly, and no customer concentration exists. Collections are consistently at or near 100%.

The authority's adequate financial position is balanced by strong liquidity levels and weak debt service coverage from operations. Despite very strong operating margins, high annual debt service obligations consistently result in coverage of debt service typically at or slightly below 1.0x. Bond covenants allow for the use of a high percentage of cash balances to meet the authority's rate covenant, which essentially requires a minimal 1.1x coverage of debt service. The authority's liquidity position is a strength, as unrestricted cash equates to a strong 639 days of operations, which increases to more than 900 days when additional reserves are considered. Rates are very affordable relative to income levels for the service area following a history of moderate annual increases.

Financial projections through fiscal 2019 — assuming no additional revenue bond offerings, annual rate hikes ranging from 3.5%–6.5%, and the use of reserves in fiscal years 2009 and 2010 — show debt service coverage averaging about 1.3x on a senior-lien basis and slightly above 1.0x on all debt obligations. The authority's multiyear capital plan is manageable at approximately \$36 million over the next five years and \$57 million through fiscal 2019. Capital funding is expected to come entirely from annual borrowings through the state's environmental infrastructure trust fund.

Rating History

Rating	Action	Outlook/ Watch	Date
A	Assigned	Stable	2/19/09

The system is highly leveraged, with debt per capita exceeding \$1,800, or four times that of the 'A' rating category median. The rating also reflects the structure of the current offering, which provides short-term debt service relief due to the extension of maturities resulting in a dissavings to the authority of approximately \$6.9 million, or 22% of the refunded bonds.

Legal Provisions

The bonds are secured by a pledge of net revenues of the authority and all moneys, securities, and funds held in any fund established under the original resolution. The definition of net revenues includes connection fees. In addition, the obligation of each municipality under the service agreement to pay to the authority its respective annual charge is an unconditional and unqualified obligation of each such municipality independent of any other obligation of each municipality under the service agreement.

Rate Covenant: The authority has covenanted to impose, charge, and collect revenues sufficient in each fiscal year to pay operating expenses, provide an amount equal to 110% of the annual bond debt service requirement, and provide an amount that is needed to meet all deposits required by bond indenture and all other charges or liens that are related to the system. For the purpose of satisfying the rate covenant, the amount of funds deposited in the revenue fund from sources other than rents, fees, and charges collected by the authority shall not exceed 10%. The amount of funds in the revenue fund derived from rents, fees, and charges is available in full to satisfy the rate covenant.

Additional Bonds Test: Additional bonds are permitted to be issued under the resolution if:

- The authority's rate covenant was met during a 12-month period that shall be either the fiscal year most recently ended prior to the date of issuance of the additional bonds or any other 12-month period ending on a date that is not more than 120 days prior to the date of issuance of additional bonds.
- It is certified that operating expenses and net revenues for each of the three fiscal years immediately succeeding the completion of the improvement financed by the additional bonds will provide net revenues not less than bond debt service requirement for such fiscal year.
- A consulting engineer certifies that the improvement being financed with the additional bonds is part of the system and that the remainder of the proceeds of such additional bonds after deducting the amounts required by the indenture and adding any other funds of the authority will be sufficient to pay the cost of acquisition or construction of such improvement.
- A consulting engineer certifies that bonds had to be issued for the improvement and that the amount of proceeds will be sufficient to complete the improvement.
- If such additional bonds are refunding bonds, maximum annual debt service (MADS) shall be less than the MADS on the bonds being refunded.

Debt Service Reserve Requirement: Pursuant to the resolution, the authority is required to deposit in the bond reserve fund an amount equal to the greatest aggregate amount of interest on and principal of all outstanding bonds becoming due in the current or any future fiscal year.

Renewal, Replacement, and Improvement Fund Requirement: A reserve is required to be funded in an amount reasonably necessary as a reserve with respect to the system for major repairs, renewals, replacements, or maintenance as certified by the consulting engineer.

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