S&P Global
Ratings

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Summary:

Anaheim Housing and Public Improvements Authority, California Anaheim; Retail Electric; Wholesale Electric

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Credit Profile		
US$199.215 mil rev rfdg bnds (Anaheim) (Elec Util Dist Sys Rfdg) ser 2016-B due 10/01/2036		
Long Term Rating	AA-/Stable	New
US$93.49 mil rev bnds (Anaheim) (Elec Util Dist Sys Imp) ser 2016-A due 10/01/2041		
Long Term Rating	AA-/Stable	New
US$70.24 mil rev rfdg bnds (Anaheim) (Electric Utility District System Refunding Taxable) ser 2016-C due 10/01/2026		
Long Term Rating	AA-/Stable	New
Southern California Pub Pwr Auth, California		
Anaheim, California		
Southern California Pub Pwr Auth (Anaheim) (Natural Gas Proj A)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AA-' rating to the Anaheim Housing and Public Improvements Authority, Calif.'s electric utility distribution system improvement and refunding bonds, series 2016A-C, issued on behalf of the City of Anaheim's electric utility (doing business as Anaheim Public Utilities (APU).

At the same time, S&P Global Ratings affirmed its 'AA-' rating on parity senior (working) lien bonds issued on behalf of APU by the Anaheim Public Financing Authority (APFA), by the Southern California Public Power Authority (SCPPA) for its Canyon Power Project, and by the California Municipal Finance Authority (CMFA). S&P Global Ratings also affirmed its 'A+' rating on the CMFA's series 2015B subordinate-lien qualified obligations. The outlook is stable.

The ratings reflect what we view to be APU's credit strengths:

A deep and diverse customer base, anchored by Disneyland and characterized by strong demographics and significant employment opportunities;

Solid financial metrics, with fixed cost coverage ranging from 1.32x in 2013 to 1.42x in 2015. Unaudited 2016 results suggest similar results; and

Good liquidity, with unrestricted cash and investments and available lines of credit measuring 141 days of operating expenses at fiscal year-end 2015 (June 30).

The ratings also reflect what we view to be APU's credit weaknesses.

As is the case with all utilities in California, the utility is exposed to significant mandates governing coal-fired generation and renewable energy. These mandates constrain operational flexibility and impose financial burdens. APU meets about half of its energy needs with coal-based resources--Intermountain Power Project (IPP) and San Juan Unit 4 (SJ4). The utility is pursuing plans to divest from carbon-based resources, and it is on pace to comply with California's stringent mandate requiring 50% of energy from renewables by 2030, which we believe carries additional challenges.

In consideration of on- and off-balance sheet obligations, debt levels are very high, measuring $13,900 per customer. We expect that debt outstanding will amortize more rapidly than new debt is added, which mitigates (but does not eliminate) this risk.

The city is issuing the approximately $93 million of series 2016A bonds to fund electric distribution system improvements, while the 2016B and 2016C bond proceeds will refund the APFA's debt issued for the APU.

We consider bond provisions, which include a 1.25x rate covenant, credit neutral.

APU's business profile score is '4', based on S&P Global Ratings' scale from '1' to '10', '1' being the strongest. The business profile reflects the utility's carbon intensity and exposure to current and future environmental regulations, our view of APU's solid management, and the deep and diverse market the utility serves.

We view APU's service area as a key credit strength. The electric utility serves a mature and diverse base of about 118,000 retail customers, and a population of more than 350,000. We view the customer base as large, diverse, and relatively well-balanced, with residential customers accounting for 21% of total sales, and commercial and industrial customers 27% and 35%, respectively, in fiscal 2016. Surplus energy sales account for a substantial 17% of total sales, though this is down from 42% in 2014. Surplus sales are typically made during off-peak hours from among Anaheim's baseload resources.

Customer concentration is not a credit risk. The top 10 customers, including Disneyland, account for just 20% of revenue. Disneyland, which employs about 23,500, has enjoyed extremely strong visitor traffic in recent years, bolstered by the completion of several new attractions. In total, the city attracts more than 20 million visitors annually, with the convention center also a large draw. Anaheim is also home to professional baseball and hockey franchises. Other economic indicators continue to evidence prospects for healthy growth: low unemployment rates, increasing hotel and sales tax revenue, population growth, and low housing vacancy rates. The local unemployment rate, at 5.6% in 2015, was slightly above the national rate. However, median household effective buying incomes were 11% above the national average in 2015.

In our view, as one of California's most carbon-intensive utilities, Anaheim faces above-average exposure to regulatory mandates. Senate Bill 1368 prohibits APU's renewal of its power purchase agreements and investments that extend the useful life of coal based resources--which affects the utility's IPP and SJ4 resources. In addition, California's Assembly Bill 32 requires significant reduction in greenhouse gases by 2020, and additional regulations necessitate the installation of costly emission controls at SJ4, and possibly at IPP as well. As is the case with other California utilities, Anaheim must also comply with California's renewable portfolio standard, the most stringent in the nation.

We understand that although IPP expects to be repowered with natural gas in 2025, APU nevertheless does not plan to renew its contract. Instead, it will opt to either purchase power or, if more cost-effective, construct locally based generation, avoiding costly transmission charges, but incurring capital costs. We also understand that APU plans to divest its 50 megawatt ownership interest in SJ4 by 2018, in advance of the 2022 expiration of its participation agreement. SJ4 is not serving retail load and management expects to apply operating cost savings to offset the costs associated with additional contracts for renewable energy.

In 2015, Gov. Jerry Brown signed into law a mandate increasing the state's renewable energy standard from 33% in 2020 to 50% by 2030, which will put additional pressure on California utilities, including APU. Coal fired generation accounted for 41% of energy needs in 2016, while natural gas and qualifying renewables each accounted for 25%.

We view APU's rates as competitive. According to the U.S. Department of Energy's Energy Information Administration, average revenue per kilowatt-hour was just 92% of the state average in 2014, the most recent year of available comparative information. Above-average median household effective buying incomes contribute to our view that rates are affordable within the context of the California market, and that the utility's competitive position is modestly favorable. We view as credit supportive the APU's authority to increase its power cost adjustment mechanism (PCA) and its environmental mitigation adjustment (EMA) without council approval under some conditions of budget variance (for the PCA) and major outages or natural disasters (for the EMA). In 2015, the utility folded zeroed-out balances in its PCA and EMA charge, into a 6% base-rate increase, and raised rates an additional 2% in 2016. We understand that management expects modest rate increases in 2018 through 2021.

In our opinion, coverage of senior-lien debt service was robust in 2014 and 2015 (and 2016 on an unaudited basis) at more than 2.5x, but APU has significant off-balance-sheet obligations and makes transfers to the city that we view as fixed. In consideration of these, we view fixed cost coverage as a more accurate measure of the utility's financial operations. Fixed cost coverage treats transfer payments as an operating expense and a component of purchased power expense as debt. In our view, fixed cost coverage has, over the past four years, been solid and stable at the current rating level, roughly 1.4x before transfers in from the rate-stabilization reserve (a transfer in in fiscal 2015 boosted fixed cost coverage to 1.5x in 2015). Our projections suggest that fixed cost coverage will be in the 1.3x range over fiscals 2017-2021, which we view as adequate at the rating level.

We view liquidity as good, with unrestricted cash and available credit lines providing 141 days of fiscal 2015 operating expenses. In addition, APU has prepaid power expenses to SCPPA, which we view as additional cushion. APU can direct SCPPA to use these funds to pay bills, but insofar as it cannot tap them immediately and in full, we do not include them in our liquidity calculation. Nevertheless, we believe they provide additional cushion and flexibility. Unrestricted cash and investments are projected to increases moderately through 2021.

Including off-balance-sheet obligations, debt levels are very high. At June 30, 2016, APU had $640 million of direct electric debt, and $795 million of obligations related to SCPPA and IPP. The utility's capital plan for 2017-2021 totals $377 million, with $214 million expected to be debt financed (including $100 million related to the 2016A bonds). However, as existing debt amortizes fairly rapidly, we expect a net reduction in outstanding debt by 2021.

Outlook

The stable outlook reflects the depth and diversity of the service area, which we expect will support revenue stability; a track record of solid coverage of fixed costs that are projected to remain at adequate levels; and good liquidity, which credit-supportive financial policies support and provides short-term cushion against budget variances.

Upside scenario

We do not expect to raise the rating over the next two years, because the utility faces challenges and uncertainties regarding environmental mandates.

Downside scenario

The rating could face downward pressure over the next two years if APU is unable to maintain adequate coverage levels consistent with our projections.

Ratings Detail (As Of September 19, 2016)		
Anaheim Elec Sys, California		
Anaheim, California		
Anaheim Pub Fincg Auth (Anaheim) elec rev rfdg bnds		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Pub Fincg Auth, California		
Anaheim, California		
Anaheim Pub Fincg Auth (Anaheim)		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Pub Fincg Auth (Anaheim) (MBIA) (National)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Anaheim Pub Fincg Auth (Anaheim) elec		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Municipal Finance Authority, California		
Anaheim, California		
California Municipal Finance Authority (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Affirmed
California Municipal Finance Authority (Anaheim) RETELEC		
Long Term Rating	A+/Stable	Affirmed
Southern California Pub Pwr Auth, California		
Anaheim, California		
Southern California Pub Pwr Auth (Anaheim) ICR		
Long Term Rating	AA-/Stable	Affirmed
Southern California Pub Pwr Auth (Anaheim) (Canyon Pwr Proj)		
Long Term Rating	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.globalcreditportal.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.