S&P Global
Ratings

RatingsDirect®

Summary:

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

Primary Credit Analyst:
Doug Snider, Centennial + 1 (303) 721 4709; doug.snider@spglobal.com

Secondary Contact:
Chloe S Weil, San Francisco + 1 (415) 371 5026; chloe.weil@spglobal.com

Table Of Contents

Summary:

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

Credit Profile		
US$342.345 mil rev rfdg bnds (taxable) (Anaheim) (Electric Utility Distribution Sys Rfdg) ser 2022C due 10/01/2048		
Long Term Rating	AA-/Stable	New
US$64.72 mil rev bnds (Anaheim) (Electric Utility Generation Sys Imp) ser 2022B due 10/01/2032		
Long Term Rating	AA-/Stable	New
US$46.125 mil rev rfdg bnds (Anaheim) (Electric Utility Distribution Sys Rfdg) ser 2022D due 10/01/2031		
Long Term Rating	AA-/Stable	New
US$43.03 mil rev bnds (Anaheim) (Electric Utility Distribution Sys Imp) ser 2022A due 10/01/2052		
Long Term Rating	AA-/Stable	New
Anaheim Pub Fincg Auth, California		
Anaheim, California		
Anaheim Pub Fincg Auth (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' rating to the Anaheim Housing and Public Improvement Authority, Calif.'s combined $496.22 million in electric utility distribution system improvement and refunding bonds, series 2022ABC and D, issued on behalf of the City of Anaheim's electric utility (doing business as Anaheim Public Utilities [APU]). The outlook is stable.

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, by the Southern California Public Power Authority for its Canyon Power Project, and by the California Municipal Finance Authority (CMFA).

The city is issuing the approximately $43 million of series 2022A and $65 million of 2022B bonds to fund electric distribution system improvements, including distribution-related capital and a battery storage project. The $342 million 2022C and $46 million 2022D bond proceeds will refund various series outstanding.

Credit overview

The rating reflects our view of the city's financial performance, which has met or exceeded previously forecast results, and is projected to strengthen in future years. The projected metrics are underpinned by a continued recovery in the economy. Given trends in business and consumer confidence, successful vaccination efforts, and APU's generally resilient performance and conservative forecasting, we believe projections are realistic. Nevertheless, we believe the

COVID-19 pandemic highlighted APU's significant and ongoing risk related to disruptions in major hotel and resort consumption, especially given that the utility derives about three-quarters of its revenue from commercial and industrial customers, with a concentration in the hospitality and tourism industries. We believe the utility's significant cash reserves provide a critical buffer against potential future short-term disruptions.

The 'AA-' rating further reflects uplift from the extremely strong management team and the supportive rate structure that provides revenue flexibility and stability. Management has demonstrated a willingness to utilize its cost adjustment mechanisms over the past year in response to pandemic-related financial stress. Before the pandemic, the uplift also accounted for the strength and stability of the customer base and underlying economy, which we do not believe currently provides as much credit support, and in many respects will likely result in a more gradual recovery relative to service areas with less visitor- and hospitality-related concentration.

The stable outlook reflects our view of APU's track record of resiliency through challenging economic conditions, coupled with its strong rate-setting practices, which together should provide the utility with stable financial metrics.

Environmental, social, and governance

Environmental risks are slightly elevated relative to those of national peers due to state mandates that require rapid renewable acquisition and have resulted in some intermittency risks associated with compliance. That said, APU is well positioned, given its supply portfolio and plans for a battery project that will somewhat mitigate intermittency. Management has also been proactive in exiting coal-fired facilities and expects to reach renewable targets by the state-imposed deadlines. In addition, APU is better positioned than most other utilities in the state with respect to wildfire risk, given that most its assets are underground within high fire threat zones.

From a social perspective, APU's risks are largely in line with those of peers given rates that are in line with the state average. However, if the utility faced political headwinds toward increasing rates or utilizing cost recovery levers, that would be a credit risk. The pandemic has had an outsized influence on the service area and another wave of related shutdowns could have a greater effect on the customer base and the utility, which is a social risk.

We view governance factors as in line with those of peers--management maintains a robust set of policies and procedures that we believe provide stability, including long-term financial and capital planning and dynamic and robust rate-setting practices.

Stable Outlook

Downside scenario

If Anaheim's recovery substantially lags the national pace and/or pandemic-related shutdowns and economic pressures reoccur, resulting in revenue or consumption declines materially below what APU has forecast, we could lower the rating. Furthermore, if liquidity is impaired and sustained below forecast levels, which could occur if APU faces unbudgeted cost pressures associated with transitioning its power supply to comply with the state's continually evolving renewable portfolio mandates, we could lower the rating Importantly, the rating assumes the city will not increase the general fund transfer or impair the liquidity of the electric system. If the city were to impair the liquidity of the electric enterprise, it would likely result in a multi-notch downgrade.

Upside scenario

We are unlikely to raise the rating during the outlook period given the challenges highlighted in APU's underlying service territory. Furthermore, APU has a meaningful level of capital investment expected over the outlook period that could add to already high leverage. If financial ratios were to improve substantially, including leverage, during the forecast years when fixed charges decline and the economy fully recovered, we could raise the rating.

Credit Opinion

In fiscal 2021, APU provided electricity to about 121,000 customers, with just under 15% of revenues derived from the utility's top 10 customers. Although individual customer concentration is not extreme, the utility receives more than 70% of its revenues from commercial and industrial customers, especially concentrated in the hospitality and tourism sectors. This concentration made APU susceptible during the pandemic to material financial pressures stemming from load disruption. However, APU weathered the economic downturn through increases to its cost adjustment mechanisms, prudent procurement of a credit line for external liquidity (which was not needed), the use of the rate stabilization fund, and the help of supplemental sales revenues associated with surplus energy sales (which are not expected to be reproduced in the forecast.)

For fiscal 2021, the utility's fixed charge coverage (FCC) improved to about 1.4x from 1.2x in 2020. While this performance was supported by unbudgeted surplus energy sales, our calculations based on management's projections indicate FCC will remain at or above 2021 levels over the next five years despite no forecast rate increases and no expectation for surplus sales.

APU's reserves exceeded 200 days in 2021, with an additional $100 million line of credit available. We view APU's liquidity as sufficient, given its risk profile and meaningful market access due to its rating levels and banking relationships. Liquidity is projected to gradually increase, despite expected drawdowns of the rate stabilization account, which should help the utility navigate a variety of recovery cases.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 8, 2022)		
Southern California Pub Pwr Auth ICR		
Long Term Rating	AA-/Stable	Affirmed
Southern California Pub Pwr Auth WHLELC (AGM) (Southern Transmission Proj)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Southern California Pub Pwr Auth (Canyon Pwr Proj)		
Long Term Rating	AA-/Stable	Affirmed
Southern California Pub Pwr Auth (Canyon Pwr Proj)		
Long Term Rating	AA-/Stable	Affirmed

Ratings Detail (As Of March 8, 2022) (cont.)		
Southern California Pub Pwr Auth (Canyon Pwr Proj)		
Long Term Rating	AA-/Stable	Affirmed
Southern California Pub Pwr Auth (Magnolia Power Project A)		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Elec Sys, California		
Anaheim, California		
Anaheim Pub Fincg Auth (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Hsg and Pub Imp Auth, California		
Anaheim, California		
Anaheim Hsg and Pub Imp Auth (Anaheim) rev bnds (elec util distribution sys imp) (Anaheim) ser 2020-A due 10/01/2050		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Hsg and Pub Imp Auth (Anaheim) rev rfdg bnds (elec util distribution sys rfdg) taxable (Anaheim) ser 2020-B due 10/01/2034		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Hsg and Pub Imp Auth (Anaheim) rev rfdg bnds (elec util distribution sys rfdg) (Anaheim) ser 2020-C due 10/01/2045		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Hsg and Pub Imp Auth (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Hsg and Pub Imp Auth (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Affirmed
Anaheim Pub Fincg Auth, California		
Anaheim, California		
Anaheim Pub Fincg Auth (Anaheim) RETELEC (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Anaheim Pub Fincg Auth (Anaheim) RETELEC (MBIA) (National)		
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

Many issues are enhanced by bond insurance.