S&P Global
Ratings

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Jacksonville Housing Authority, Florida; General Obligation

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Long Term Rating	A+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'A+' issuer credit rating (ICR) to Jacksonville Housing Authority (JAXHA), Fla.
- The outlook is stable.

Security

An ICR reflects the obligor's general creditworthiness and its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation and does not take into account the obligation's nature and provisions, bankruptcy standing, liquidation, statutory preferences, or legality and enforceability.

Table 1

Jacksonville Housing Authority, Fla.--Main Rating Factors

Factor	Assessment
Industry risk	Very strong - 2
Regulatory framework	Very strong - 2
Market dependencies	Extremely strong - 1
Management and governance	Very strong - 2
Enterprise risk profile	Very strong - 1.8
Financial performance	Highly vulnerable - 6
Debt profile	Very strong - 2
Liquidity	Extremely strong - 1
Financial risk profile	Strong - 3

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in this table. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Credit overview

With more than 20,000 families on JAXHA's waitlist needing housing, the authority's experienced yet relatively new management team has adopted an extensive growth strategy to add an additional 500 housing units per year through acquisitions and new construction. Undertaking such a development strategy will inevitably have an impact on JAXHA's debt profile; however, given conservative cash flow assumptions on pipeline projects and stable financial performance on the existing portfolio, we believe that the increased debt service requirements and administrative costs will not pose an unmanageable burden on the authority's financial performance.

The rating reflects our view of JAXHA's:

- Experienced senior management that, while relatively new to JAXHA, have exhibited an ability to meet strategic initiative goals, with further efforts underway to significantly expand the authority's housing portfolio;
- Strong financial risk profile based on highly vulnerable and volatile financial performance that ranges from 3.2%-15.6% over a five-year period, strong debt profile that factors in additional debt associated with JAXHA's strategic portfolio growth, and extremely strong liquidity with sources exceeding uses by about 3.8x; and
- Very strong market dependencies, reflecting high demand for affordable housing in the city of Jacksonville, with vacancies at about 2.0%, which is significantly below the market vacancy rate.

Established in 1994, JAXHA provides approximately 2,000 public housing and 1,000 affordable housing units to low- and moderate-income residents in developments and scattered sites around Jacksonville. In addition, JAXHA administers about 8,500 housing choice vouchers.

JAXHA has increased its participation in the U.S. Department of Housing & Urban Development's (HUD) rental-assistance-demonstration (RAD) program, through which it converted public housing-assistance units to Section 8 project-based vouchers. The RAD program allows JAXHA to leverage grants, as well as private and other capital sources, to fund needed property improvements, among other expenses. In addition to its housing developments, JAXHA administers several resident service programs, including homeownership programs, career training, and self-sufficiency programming.

In our analysis of the ICR, we review JAXHA's operations and initiatives as the primary entity along with the operations and initiatives of certain affiliates formed as general partners in low-income-housing tax-credit developments or discretely presented component units. Although JAXHA has structured affiliates as legally separate entities, it maintains a controlling minority interest in these entities; the nature and significance of the affiliates' relationship with JAXHA means that excluding them from our analysis would be misleading. The ICR on JAXHA reflects a stand-alone credit profile (SACP) of 'a+' and our view that there is a moderate likelihood the federal government would provide timely and extraordinary support to the authority in the event of financial distress.

Environmental, social, and governance

We have analyzed JAXHA's environmental, social, and governance (ESG) risks relative to the authority's market position, management and governance, financial performance, and debt and liquidity profile, and have determined that all are neutral considerations in our credit analysis. JAXHA's diversity of assets across Jacksonville reduces the environmental risk that disruption would occur from an acute event or chronic long-term climate change. Furthermore, we view social risks as neutral in our credit analysis due to the now-expired eviction moratorium related to the COVID-19 pandemic, although the sector's market dependencies, which are largely countercyclical and benefit from extraordinary federal government support, somewhat mitigate these risks. We have also analyzed JAXHA's governance a risks and have determined they are in line with our view of the sector standard.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of JAXHA's very strong management and sustained financial performance when working within its strong debt profile to expand its housing footprint. With the continued demand for JAXHA's services, we expect the authority will maintain very strong enterprise and strong financial risk profiles throughout the two-year outlook period, supported by a measured approach to additional developments and associated debt.

Downside scenario

We could take a negative rating action if the federal government were to markedly reduce its public housing support, which could weaken a key revenue source for JAXHA; or if operating expenses, such as debt service or administrative functions, were to increase significantly, pressuring financial performance and weakening liquidity.

Upside scenario

We could take a positive rating action in the event financial performance were to strengthen and stabilize with an EBITDA-to-revenue ratio consistently more than 10% while maintaining very strong market dependencies, extremely strong liquidity, and at least a strong debt profile.

Credit Opinion

Enterprise Profile

We think public housing authorities (PHAs) benefit from a strong public policy mandate and operate under a stable, well-established framework that makes them key providers in the sector. There is strong sector oversight with high governance, reporting, and disclosure standards so that sector or individual risks are easily identified. However, once identified, risks are not always remedied at an early stage.

Operational support to PHAs is direct and ongoing. JAXHA regularly receives federal grants in the form of capital and operating contributions to maintain and operate public housing and administer various programs to provide low-income affordable housing. There is no precedent of adverse negative intervention from governments or their agencies, and we do not expect any in the next few years. Public housing is subject to tenant income and rent limits.

JAXHA's market position is extremely strong, in our opinion, reflecting the balance of the authority's regulatory framework and systemic support with market dependencies and management and governance. Average rent is approximately 40% of market rent, demonstrating JAXHA's mission of providing affordable housing. In addition, vacancies at JAXHA's properties have averaged 2.2% over the past three years, which we view as significantly lower than the market vacancy rate of 4.2%.

In our opinion, JAXHA maintains very strong management and governance characteristics, based on our assessment of its strategic planning process, the consistency of strategy with operational capabilities and marketplace conditions, management expertise and experience, and financial policies and risk management standards. JAXHA maintains a rolling strategic plan that it updates every year and that outlines key program initiatives and some specific strategic goals. We believe that the overarching strategy is consistent with the authority's capabilities and that marketplace conditions are accounted for, as evidenced by management's deliberate investments to address housing and community development. Management has substantial expertise and experience, in our view, and has a demonstrated a solid track record, considering that the management team is relatively new to the authority. JAXHA maintains a basic framework of risk management standards and tolerances in line with sector standards to limit operational, debt, cyber, and fraud risks.

Financial Profile

Our assessment of financial performance uses a five-year average, including audited fiscal 2020, audited fiscal 2021, and the unaudited fiscal 2022 financials with year-to-date estimates, as well as our forecast for fiscal years 2023 and 2024. We consider JAXHA's financial performance highly vulnerable, reflecting a five-year average adjusted EBITDA-to-adjusted operating revenue ratio of about 7.2%.

Federal, state, and county funding account for 97% of operating revenue on average, including operating subsidies that have grown recently and Section 8 rental payments for an increasing number of project-based and emergency housing vouchers. EBITDA strengthened substantially between 2018 and 2021, according to audited financials, primarily reflecting substantial year-over-year growth in operating grants and contributions and well-managed program expense. However, JAXHA's financial performance has been susceptible to one-time costs and revenues that have resulted in net operating income volatility in the past four audited years, although there has been a consistent increase in the net position. As JAXHA increases its debt profile to fund acquisitions and new construction, the additional debt service is likely to be offset by the supplementary revenue received from its growing unit portfolio.

We view JAXHA's current debt profile as strong, as supported by our calculated EBITDA-to-interest and debt-to-EBITDA financial ratios. Using historical data for the consolidated government and business activities and including forecast debt associated with pipeline projects, we calculate a five-year average EBITDA-to-interest ratio of 9.80x, and a debt-to-EBITDA ratio of 7.41x. Given the additional debt of approximately $74 million in fiscal 2023, we expect the EBITDA-to-interest and debt-to-EBITDA ratios will weaken because the fiscal 2023 ratios are 15.0x and 2.5x, respectively. We estimate total debt outstanding as of fiscal year-end 2024 to be approximately $107.5 million.

We think extremely strong liquidity reflects high cash and liquid investments, cash provided by operating activities, and satisfactory access to external funding. In our base case during the next 12 months, we estimate about $39.4 million will likely cover uses by about 3.8x.

Liquidity includes:

- Forecast cash generated from continuing operations, totaling $4 million; and
- Cash and liquid investments of $35.4 million.

Liquidity uses include:

- Expected working capital outflows (excluding cash and liquid investments) totaling $5.5 million; and
- Interest and principal payable on short- and long-term debt obligations coming due, totaling nearly $4.8 million.

Table 2

Jacksonville Housing Authority, Fla.--Key Ratios Comparison

Entity name	ICR	Units owned/ managed	Average rent to market rent (%)	Vacancy rate (%) - SHP	Adjusted EBITDA (%) of adjusted operating revenue	Debt/Nonsales adjusted EBITDA ratio (x)	Nonsales adjusted EBITDA/interest (x)	Liquidity ratio (x)
Jacksonville Housing Authority	A+	3,300	40.5	0.5	7.2	9.8	7.4	3.8
Lucas Metropolitan Housing Authority	A+	2,699	22.0	3.0	7.0	6.1	4.4	4.5
Baltimore City Hsg Auth	A+	6,179	19.2	2.0	9.3	2.5	22.6	7.6
Cuyahoga Metropolitan Hsg Auth (City of)	A+	8,628	20.0	4.5	11.4	8.7	6.8	1.2
Snohomish Cnty Hsg Auth	A+	2,463	41.0	2.8	17.4	11.8	4.8	3.4
Denver Housing Authority	AA-	5,499	34.7	1.1	15.9	19.0	3.8	3.9
Housing Catalyst	AA-	1,021	44.0	6.5	24.7	13.7	9.1	4.8
Los Angeles County Dev Auth (LACDA)	AA-	3,229	19.1	2.0	10.1	0.2	35.0	7.0

ICR--Issuer credit rating. SHP--Social housing provider.

Anchor Ratings, Overriding Factors, Caps, And Holistic Analysis

The anchor rating, determined by indicative scores and weights according to our methodology, is 'a+' for the ICR. We applied no holistic adjustment, resulting in a final stand-alone credit profile of 'A+'.

Related Research

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