MOODY'S INVESTORS SERVICE

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New Issue

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Lafayette (City of) LA Combined Utilities Enterprise

New Issue: Moody's assigns A1 to Lafayette, LA Utilities Revenue Refunding Bonds, Series 2017

Summary Rating Rationale

Moody's Investors Service today assigned an A1 rating to the $57,845,000 City of Lafayette, LA Utilities Revenue Refunding Bonds, Series 2017. Concurrent with this rating assignment, Moody's affirmed the A1 rating on the outstanding Lafayette Utilities System's (LUS) Revenue Bonds and the A3 rating on the Communications System Revenue Bonds. The outlook is stable.

The A1 rating for the utility revenue bonds reflects the combined utility's stable and strong operating record, the consistently sound financial metrics and timely rate changes combined with the flexibility to manage utility system costs. The utility system, which includes power, water and wastewater services, has demonstrated sound financial metrics with fixed obligation charge coverage of 1.5 times and liquidity levels of 277 days cash on hand in FY 2016. Also incorporated in the rating is its diversified, reliable and low cost power supply, competitive retail rates, and modest capital needs. The rating actions recognize the utility's plan to maintain credit quality over the next two to three years as it increases leverage to fund MISO required capacity additions through base rate increases have already been approved for FY 2017 and FY 2018.

The rating also considers the sensitivity of the service area economy to the fluctuations in oil prices, and the reliance on coal-fired generation which is somewhat tempered by delays in implementing aspects of the Clean Power Plan.

The A3 rating for the communication system revenue bonds recognizes the higher risk factors associated with the communication systems which are offset by an additional subordinate lien pledge from the combined utilities system. The A3 rating also considers the limited record of financial self-sufficiency for the communication system, along with the more competitive landscape that accompanies the telecom business.

Credit Strengths

» Unregulated rate-setting ability and automatic fuel cost adjustments allow for timely and adequate cost recovery

» Strong track record of base rate adjustments to accommodate higher costs

» Strong liquidity

» Full participation in MISO market provides operational efficiencies

» Water and wastewater systems have sufficient capacity to manage current pace of growth for the forecast period

Credit Challenges

» Need for increased leverage and future construction risk associated with building of the new capacity to replace Doc Bonin power plant

» Exposure of the communication system business to competitive pressures

» Exposure to the potential increased capital expenditures to make RPS2 compliant with EPA's carbon emission reduction rules

» Ongoing regulatory compliance for water and wastewater systems

» Local economy is still concentrated in large part in the oil industry, increasing potential economic volatility caused by oil price changes

Rating Outlook

The stable outlook on the combined utility revenue bonds is our expectations that the combined utility will implement base rate hikes to maintain strong financial metrics as it meets demand growth through investments in additional capacity over the next 2-3 years. The stable outlook for the communications system revenue bonds incorporates an expectation that the operation will continue to be self-sufficient and factors in the LUS support available to these securities.

Factors that Could Lead to an Upgrade

» The ratings could be upgraded should the combined utility improve its fixed obligation charge coverage (FOCC) ratio to more than 2.0x and liquidity increases to more than 250 days of cash. The communication system revenue bond rating could be upgraded if the communications utility is able to meet standalone debt service coverage requirements by 2.0x and maintain days cash on hand of about 150 days on a sustained basis.

Factors that Could Lead to a Downgrade

» The combined utility revenue bond rating could be lowered if the combined utility failed to maintain its stable cost recovery record and its financial metrics weakened resulting in a coverage of less than 1.75x on a three year average basis. The combined utility revenue bond rating could be lowered if the communication system materially underperformed causing substantial reliance on LUS to meet its obligations.

» The communication system revenue bond rating could be lowered if the combined utility's rating was downgraded

Key Indicators

Exhibit 1

LAFAYETTE (CITY OF) LA COMBINED UTILITIES ENTERPRISE

	2012	2013	2014	2015	2016
Total Sales (mWh)	2,102,720	2,016,287	3,041,789	3,150,820	2,900,099
Debt Outstanding ($'000)	274,935	249,220	237,865	226,365	214,410
Debt Ratio (%)	36.1	32.5	30.6	28.9	27.3
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	226	234	238	282	277
Adjusted Debt Service Coverage (x) (Post Transfers/PILOTs - All Debt)	3.38	2.07	2.15	2.06	1.71
Fixed Obligation Charge Coverage (if applicable)(x)	2.11	1.72	1.80	1.81	1.55

Source: Moody's Investors Service

Recent Developments

Operating revenues decreased to $221 million in FY 2016 from $229 million in FY 2015, a growth of 3.5% primarily because of lower year-over-year fuel cost adjustment revenues, which lower the operating revenues. The decrease in fuel cost adjustment revenues was attributable to lower natural gas prices. However operating expenses increases leading to a $8 million decline in net revenues for FY 2016 to $39 million from $47 million in FY 2015. Consequently, fixed obligation charge coverage (FOCC) ratio declined to 1.55 times in FY 2016 from 1.8 times in FY 2015.

Going forward we expect the FOCC to decrease modestly as Lafayette utilities revenue bonds' annual debt service obligation increases to $28.4 million in FY 2018 and then again increases to $35.6 million in FY 2019. In order to maintain financial metrics given the higher debt service obligations, electric base rates have been increased by 6% in 2016 and similar increases have been approved by the city council for FY 2017 and FY 2018. Liquidity remains steady at 277 days of cash at the end of FY 2016. Over the next five years, as LUS undertakes its capital investment plans (CIP) to fulfill its capacity needs related to compliance with MISO's capacity and reserve requirements, rate increases will allow it to maintain liquidity at or above the historical levels. CIP will be funded through a mix of rate increases and debt issuances, leaving the liquidity unaffected.

The communication systems operating revenues increased to $36 million in 2016 from $34 million in 2015, a growth of 5.6% owing to an increase in number of customer accounts. The communication system reported a surplus of about $9.2 million after paying operating expenses, debt service and payments in lieu of taxes. Going forward, communication system's cash flows should be sufficient to pay for its capital needs.

In 2016, LUS completed an integrated resource plan to evaluate its long term power supply options to replace the capacity lost from the retirement of the Doc Bonin natural gas fired plant. In order to meet its resource adequacy requirements in the short term, as a MISO participant, LUS entered into two capacity contracts, one for 40MW through May 2020 and another for 20MW for 2017 and an additional 33MW for 2018. For the long term capacity replacement, LUS will install reciprocating internal combustion engines, which are considered economic due to their low heat rate.

Detailed Rating Considerations

Revenue Generating Base

Lafayette Utilities System is owned by the city of Lafayette, in southern Louisiana (sales tax bonds rated Aa3, no outlook). The city's tax base and population have grown slowly over the last several years. According to Moody's Economy.com, Lafayette's energy-driven free fall appears to be over, however, weak demographics and an over dependence on the volatile energy industry will cap potential growth. Job gains this year are small compared with losses in prior years. With a tough labor market and high-wage job losses during the energy downturn, out-migration has accelerated among the working-age population.

Customer base is diversified, and since being fully integrated into the MISO market, retail sales account for 100% of electric revenue. LUS is not overly reliant on any of its large customers, with the top ten customers contributing only 8.9% of the revenues in FY 2016.

The Utility System also provides wastewater and water service, both of which are financially self sufficient. The communications system is operated separately but does include a pledge that if revenues are insufficient, then the Utilities System will pay communications system debt service.

The electric rates are set by the city council and are not regulated externally. LUS has been well managed with each of the utility services self-supporting and well positioned to manage growth but each with regulatory issues they have to manage. The communications system owns the fiber optics communications system and represents a major service with potential competitive pressures. However, the communication system is expected to continue exhibiting strong growth in operating revenues.

ELECTRIC

The electric system consists of power generation, transmission, distribution and customer facilities, and is the largest component of the combined system, contributing about 80% of the combined system's revenues. In 2013, LUS became a full market participant in Mid-continental Independent System Operator (MISO) and now purchases all of its energy needs from MISO and dispatches its generation facilities into the market as market power sales.

LUS also entered into an agreement with the local rural electric cooperative Southwest Louisiana Electric Membership Corporation (SLEMCO) under which LUS may acquire and serve new electric customers. LUS anticipates to spend around $3 million in 2018 to accommodate these customers.

The generation fleet consists of two natural-gas fired plants, Hargis-Herbert and TJ Labbe for the total operating capacity of 188MW. In additional to that, LUS has power purchase agreements with Lafayette Public Power Authority (LPPA) and Southwest Power Administration (SPA). LPPA holds a 50% ownership of RPS2, operated by Cleco, for an additional 245.5 MW of coal-fired operating capacity. LUS is obligated to purchase all output from the LPPA-owned RPS2. The take-or-pay obligation with LPPA is an O&M expense of the utility.

A power purchase agreement with SPA provides additional 18.6 MW of hydro-powered generation. Two gas fired plants that were previously in operation, Curtis Rodemacher plant and Doc Bonin plant retired as they were deemed economically obsolete. In order to replace the capacity lost from the retirement of the Doc Bonin gas fired plants, LUS has entered into capacity contracts, which will allow it meet its near term capacity obligations in the MISO market. In order to replace the lost capacity in the longer term, LUS will finance the construction of new natural gas fired reciprocating engines at an expected cost of about $120 million.

LUS capital improvement plan for the electric system is about $182 million between FY 2018 and FY2022, of which $120 million will be for the construction of reciprocating engines. The electric system plans to finance the capital improvement program, among other things, with two $100 million bond issuance in 2018 and 2019 respectively. Compliance with environmental regulations is not an immediate concern. LPPA has a moderate capital plan of approximately $15 million for FY2018 though FY2021.

WATER

The Utilities water supply is from the Chicot underground aquifer which is sole source and of good quality. Some regulated contaminants exist at well protection areas. There are 20 wells with overall sufficient water treatment capacity of 53.8 million gallons per day (MGD) and 27 MGD peak demand. The LUS water system capital improvement plan amounts to $15 million between FY2018 and FY2022 for various improvements.

WASTEWATER

The wastewater system includes both collection and treatment facilities. The four wastewater treatment plants have an average capacity of 18.5 MGD, with an ability to treat the peak flow of 9.25MGD range. The LUS wastewater system capital improvement plan includes $50.6 million between FY2018 and FY2022 primarily for the development and expansion to keep pace with the growth in population.

COMMUNICATIONS SYSTEM

A major city strategy was to implement a city-sponsored communications system to be available to all parts of the service area. Lack of adequate service by private sector vendors and pricing that was not attractive resulted in a voter referendum to authorize LUS to enter the business. After significant litigation, the utility implemented the start-up and achieved a self supporting financial position.

The utilities system owns the fiber optics telecommunications system known as LUS Fiber. It is a 67-mile multiple strand fiber backbone supporting broadband data system that services over 20,000 customers and offers CATV, internet and phone services since February of 2009. LUS Fiber is in direct competition with such communications providers as Cox Communications, Dish, and AT&T/ Direct TV.

The City of Lafayette has $105 million of utilities system revenue bonds outstanding. LUS Fiber is financially independent of the LUS electric, water and wastewater systems except for start-up loans. However, the combined utilities system offers an additional security for the communication system bonds. Should LUS communications system encounter a credit event or default on the communication system revenue bonds, LUS combined utilities revenues could be used to pay for debt service.

Financial forecasts indicate that owing to a strong product offering and competitive pricing, the customer base will continue to grow at about 4% resulting in increased market share. The communication system CIP includes about $42 million between FY2018 and FY2022 primarily for installations and equipment.

Operational and Financial Performance

The combined electric, water and wastewater utility has a sound financial record with FOCC at 1.55 times in FY 2016, a decrease from 1.8 times in FY 2015. The decrease is attributable to an increase in operating expenses other than fuel costs, which resulted in lower net revenue for FY 2016. Moody's calculated fixed obligation charge coverage (FOCC), which includes General Fund transfers as an operating expense and includes the debt service portion of LUS's take-or-pay obligation payment to LPPA as debt service, averaged 1.72 times between FY 2014 and FY 2016.

Going forward the FOCC is projected to decrease slightly because of the increased debt service obligations due to two planned bond issuances but the utility will increase electric base rates in 2017 and 2018 in order to maintain the FOCC in line with the historical averages, on a three year average basis. A consistent strength of LUS has been its maintenance of strong days cash on hand which is a positive consideration in the rating. In 2016, days cash on hand was about 277 days. Going forward we expect liquidity to remain at approximately the same level.

Since the communication system bonds have a subordinate lien on the combined utility revenues, Moody's stressed debt service coverage using the FY 2016 combined utility net revenue in the calculation, assuming LUS had to support the communication system debt service and included the debt service portion of LUS' take-or-pay obligation payment to LPPA. Under the stress test, the FOCC in FY 2016 would be about 1.32 times.

LIQUIDITY

The combined utilities system's liquidity is adequate with an average of 266 days cash on hand for the past three fiscal years, which compares favorably with Moody's median for A rated generators of 238 days cash on hand. Management forecasts the combined utility's liquidity to remain on average stable with around 250 days cash on hand. The communication system's liquidity was 180 days cash on hand for FY 2016, a small improvement over FY 2015.

Debt and Other Liabilities

As of FYE 2016, the City of Lafayette's Utilities System has about $214.41 million of revenue bonds outstanding and the communication system about $105 million of revenue bonds outstanding. Additionally, the city is the single participant of the Lafayette Public Power Authority through its take-or-pay obligation with the joint action agency that aggregates $85 million of principal debt.

DEBT STRUCTURE

Structurally, from a waterfall perspective, of the three obligations mentioned in the previous section, payments to Lafayette Public Power Authority under the take-or-pay obligation comes first, because it is paid as an operating expense. Debt of the combined utilities system is structurally superior to the communication system. In the event of the communication system's payment default, the combined utility system may step in to remedy the default. The communication system's revenue are not pledged to the combined utility system's debt.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

Management and Governance

While LUS manages the combined utility, The Lafayette Public Utilities Authority (LPUA) and the Lafayette City-Parish Council are the legislative governing bodies of the combined utility system.

Utility rates are established without external regulation and are set by the LPUA and the City-Parish Council. The nine-member City Council is elected by districts. New rates can be established in six weeks but LUS typically does a comprehensive rate study in preparation for a rate change. While base rate for electricity was increased in 2011 and 2012, no base rate increase has been undertaken since then. City Council has approved electric base rate increase of 6% in each of FY 2017 and 2018. The utility has authority to enact a monthly fuel adjustment charge for fuel, purchased power and other costs, including LPPA purchased power and related costs, providing financial stability to the utility system. Management can implement the automatic charge adjustment without the city council's approval.

LUS can be asked to transfer to the city's consolidated general fund up to 12% of previous fiscal year's gross revenues annually. In the past, the Lafayette City Parish Council has authorized these transfers to be about 10% of gross revenues. However, the amount of the general fund transfer is governed by an agreed upon formula capped at 12% of previous fiscal year's gross revenues; additionally, the transfer can only be made if 7.5% of non-fuel revenues have been set aside for capital additions and improvements.

Legal Security

The City of Lafayette Utilities System's revenue bonds are secured by the net revenues of LUS. Rate covenant and additional bonds test are sum-sufficient. The bonds are also secured by a cash funded debt service reserve fund sized at the maximum annual debt service. Series 2017 bonds will have a cash debt service reserve fund, requiring the lesser of the three tests- MADS, 10% of proceeds, or 125% of average annual debt service. We expect the DSRF to be the 125% of the average annual debt service at this point.

Communication system bonds are secured by the net revenues of the of the communications system. If a “credit event” occurs, the bonds are further secured by a subordinate lien pledge of the combined utility system, including amounts on deposit in the “capital additions fund”. Debt service is set-aside in the debt service account every month, including a 1/6 semi-annual interest, 1/12 annual principal payments deposits. By the 21st of the month preceding every interest payment date (semi-annually) debt service will be transferred from debt service account to the paying agent. Failure of the issuer to make this payment requires notification of the issuer by the paying agent. Failure to make such a transfer by the 24th of the month constitutes “a credit event” which will trigger payment from the subordinate lien revenues of the combined system.

Use of Proceeds

The bonds are being issued for the purpose of advance refunding some of the currently outstanding Utilities Revenue Bonds, Series 2010 for Net Present Value savings of approximately $4 million or 6.2%.

Obligor Profile

The City is the owner of the Lafayette Combined Utility System, which includes the LUS Electric System, the Water System, the Wastewater System as well as the Communications System. Lafayette Public Utilities Authority ("LPUA") is the governing authority of the Utilities Department.

Rating Methodology and Scorecard Factors

The grid is a reference tool that can be used to approximate credit profiles in the public power electric utility sector. However, the grid is a summary that does not include every rating consideration. Please see Methodology on U.S Public Power Electric Utilities with Generation Ownership Exposure for more information about the limitations inherent to grids.

Exhibit 2

US Public Power Electric Utilities with Generation Ownership Exposure Rating Methodology Factors

Factor	Subfactor	Score	Metric
1. Cost Recovery Framework Within Service Territory		Aa	
2. Willingness and Ability to Recover Costs with Sound Financial Metrics		A	
3. Generation and Power Procurement Risk Exposure		Baa	
4. Competitiveness	Rate Competitiveness	Baa	
5. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aaa	266
	b) Debt ratio (3-year avg) (%)	Aaa	28.9
	c) Adjusted Debt Service Coverage or Fixed Obligation Charge Coverage (3-year avg) (x)	A	1.72
Preliminary Grid Indicated rating from Grid factors 1-5			
		Notch	
6. Operational Considerations		0	
7. Debt Structure and Reserves		0	
8. Revenue Stability and Diversity		0	
Grid Indicated Rating:		**A1**	

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in March 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Lafayette (City of) LA Combined Util. Ent.

Issue	Rating
Utilities Revenue Refunding Bonds, Series 2017	A1
Rating Type	Underlying LT
Sale Amount	$57,845,000
Expected Sale Date	09/07/2017
Rating Description	Revenue: Other

Source: Moody's Investors Service

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