

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns A1 to Lafayette (City of) LA Combined Util. Enterprise's Utilities Revenue Bonds, Series 2024; outlook stable

01 Oct 2024

New York, October 01, 2024 -- Moody's Ratings (Moody's) has assigned an A1 rating to Lafayette (City of) LA Combined Utilities Enterprise's (LUS) \$159.6 million Utilities Revenue Bonds, Series 2024. Concurrent with the rating assignment, we have affirmed the A1 ratings on the outstanding parity senior lien bonds of approximately \$218.5 million, and affirmed the A2 ratings on LUS' outstanding subordinate communication system revenue bonds of approximately \$69 million. The outlook remains stable.

RATINGS RATIONALE

Today's rating action reflects LUS' ability to maintain healthy financial metrics despite its ongoing capital improvement plan that will more than double leverage going forward. The system's current issuance expects to be followed by additional debt of approximately \$180 million in 2026. While debt is expected to increase substantially for required capital needs, we believe that the system's current low leverage levels and declining amortization profile will help LUS absorb the additional leverage without significantly impairing the system's credit quality. Furthermore, the capital plan is being supported through rate increases of 3.5% on the electric system between fiscal years 2026 and 2028.

The additional debt is being used to build a new natural gas-fired generation unit (the "Bonin 4 Plant") in order to meet capacity requirements following the retirement of its coal-fired plant, Rodemacher Unit 2 (RPS2), which is expected to cease operations by the end of 2027. The decision to retire the facility came after an integrated resource plan indicated that LUS should consider retiring RPS2 because of ongoing environmental regulations that would be costly going forward. The Bonin 4 Plant is crucial to the future operations of the system as Rodemacher Unit 2 represents nearly half of LUS' peak capacity and reserves. The Bonin 4 Plant is not expected to be complete until the end of 2028 or the beginning of 2029, which means there will be a gap in the capacity needs of LUS. LUS is currently evaluating how to meet these

capacity requirements during this gap period and is likely to meet the capacity and energy requirements through a combination of bilateral agreements or market purchases. While not anticipated, if the Bonin 4 Plant construction were to be significantly delayed, the system's credit profile could weaken as LUS could be exposed to potentially higher construction costs, the potential for reliability concerns, and ongoing power costs owing to a sustained reliance on market purchases to meet its capacity requirements. While we view the occurrence of this scenario as a low probability event and one that we believe LUS can adequately manage, it also cannot be ruled out as a risk highlighting the importance of this transition from RPS2 to the Bonin 4 Plant in order to reliably meet the system's future energy and capacity requirements.

The one-notch differential of the A2 rating on the communication system revenue bonds reflects the subordinate pledge of the net revenues of the LUS system. The rating additionally incorporates LUS Fiber's track record of generating good operating cash flow. LUS Fiber is moving further away from initial startup status and continues to acquire market share which has bolstered the credit profile. LUS Fiber has much higher business risk which, unlike the combined utilities' monopoly service, has direct competition with other telecom providers.

RATING OUTLOOK

The stable outlook reflects steady demand within the service territory and our expectation that LUS will maintain strong financial metrics as it continues to manage its capital plan and increase leverage as RPS2 gradually ceases its operations.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- LUS is able to construct its new facility with minimal issues while maintaining an FOCC above 2.0x and days cash on hand above 250 days
- Sustained economic expansion and diversification

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant issues in constructing its new facility, leading to material cost overruns and delays
- Deterioration of financial performance resulting in FOCC falling well below 2.0x on a three-year average basis
- Communication system operations weaken resulting in diminished self-sufficiency

LEGAL SECURITY

The 2024 Bonds will be secured net revenues of LUS' electric system and water system. The rate covenant is 1.0x and can be satisfied with transfers from the capital

additions account treated as revenue, which dilutes the requirement. The additional bonds test is also 1.0x and the bonds are further secured by a debt service reserve that is surety funded at the lesser of 10% of par, maximum annual debt service, or 125% of average annual debt service.

The state recently enacted Act No.144 which prevents LUS from using net revenues from the wastewater system to help cover obligations of other parts of the combined system for debt issued after August 1, 2024. Therefore, wastewater net revenues can only be used for wastewater projects going forward. However, wastewater net revenues can still be used to pay all outstanding debt of the combined system.

The communication system revenue bonds are secured by the net revenue 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. A credit event occurs if, on the 21st day before an interest payment due date, amounts on deposit in the debt service account are insufficient to pay principal and interest.

USE OF PROCEEDS

The proceeds of the Series 2024 Bonds will be used to provide funds for the purpose of financing a portion of the costs of engineering, designing, constructing, and acquiring a new natural gas-fired power generation facility (the "Bonin 4 Plant"), and such other improvements and extensions to the Utilities System, including necessary equipment and furnishings that are necessary for the construction and operation of the Bonin 4 Plant. The funds will also be used to pay the costs of issuance which includes the premiums for a municipal bond insurance policy and a debt service reserve fund surety policy.

PROFILE

Lafayette (City of) LA (Aa2) is located in southern Louisiana approximately 30 miles from the Gulf of Mexico and has an estimated population of 121,706. 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.

The electric, water and wastewater systems primarily serve within the city but also on a limited basis to some areas outside city limits. LUS electric system served 71,521 accounts in 2023. The communications system offers fiber leases, wholesale broadband and retail customer services. On the retail side, the communications system offers "triple play" services: Cable television, internet and telephone.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in Jan 2023 and available at

<https://ratings.moodys.com/rmc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Rodney Cannon
Lead Analyst
Project Finance

Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Angelo Sabatelle
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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