



**Rating Action: Moody's assigns A1 to Lafayette (City of) LA Combined Util. Enterprise's Series 2023 senior revenue bonds; outlook stable**

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04 Oct 2023

New York, October 04, 2023 – Moody's Investors Service has assigned an A1 rating to Lafayette (City of) LA Combined Utilities Enterprise's \$50 million Utilities Revenue Bonds, Series 2023. Currently, the system has approximately \$185 million of revenue bonds outstanding. The outlook is stable.

#### RATINGS RATIONALE

The assignment of the A1 rating reflects Lafayette (City of) LA Combined Utilities Enterprise's (LUS) long track record of maintaining healthy financial metrics supported by timely rate increases. Going forward, we anticipate the combined utilities system, which includes power, water and wastewater services, will maintain overall stable fixed obligation charge coverage ratios (FOCC) in the 1.5x-2.0x range and stable liquidity with days cash on hand around 250 days. The local population and service area economy are relatively stable, despite regional concentration in the oil and gas sector, and are anchored by the institutional presence of the University of Louisiana at Lafayette, which combined with energy efficiency helps to keep load growth very stable.

LUS' rating is constrained by its high reliance on coal generation and the expectation of increased leverage to meet capacity requirements over the next several years as the utility prepares for the retirement of Rodemacher 2 (RPS2) in 2027. RPS2 is co-owned by LUS through the Lafayette Public Power Authority (LPPA; A1 stable) and represents a large share of LUS' peak capacity and reserves. Currently, LUS continues to move forward in its plan to replace RPS2's lost capacity with a self-build natural gas facility with an expected commercial operations date of March 2028. While this transaction does add additional leverage, based on the system's currently low leverage and amortization structure, we believe LUS will be able to manage the needed investment without impairing credit quality. LUS has environmental risk related to hurricanes owing to the city's location near the Gulf of Mexico.

#### 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 increased leverage as RPS2 ceases operations.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Sustained economic expansion and diversification with growth in higher-wage, non-energy segments
- More certainty surrounding final capital investment and related customer rate impact to address long-term capacity needs with the upcoming decommissioning of RPS2, while the combined utilities system generates FOCC and days cash on hand in excess of 2.0x and 250 days, respectively

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Deterioration of financial performance resulting in FOCC falling below 1.5x on a three-year average basis
- Communication system operations weaken resulting in diminished self-sufficiency

#### LEGAL SECURITY

Similar to outstanding senior revenue bonds, the Series 2023 bonds are secured by net revenues of LUS. 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 cash funded at the lesser of 10% of par, maximum annual debt service, or 125% of average annual debt service.

## USE OF PROCEEDS

The proceeds of the Series 2023 Utilities Revenue Bonds will be used to fund improvements to the combined utilities system, to fund a debt service reserve for the bonds, and to pay the costs of issuance.

## PROFILE

The City of Lafayette, LA is located in southern Louisiana approximately 30 miles from the Gulf of Mexico and has an estimated population of 133,727. 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 over 70,000 accounts in 2022.

## METHODOLOGY

The principal methodology used in this rating was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/mmc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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