

**New Issue: Moody's Assigns A3 to Lafayette Communication System's (LA)
\$91.6 million Revenue Refunding Bonds, Series 2015; Outlook is Stable**

Global Credit Research - 08 Jul 2015

Approximately \$114 million revenue bonds affected

LAFAYETTE (CITY OF) LA COMBINED UTILITIES ENTERPRISE
Electric Distribution
LA

Moody's Rating

ISSUE	RATING
Communication System Revenue Refunding Bonds, Series 2015	A3
Sale Amount	\$91,600,000
Expected Sale Date	07/21/15
Rating Description	Revenue: Government Enterprise

Moody's Outlook STA

NEW YORK, July 08, 2015 --Moody's Investors Service has assigned an A3 rating to the Lafayette, Louisiana (LUS) Communication System Revenue Refunding Bonds, Series 2015 ("the 2015 Bonds"). Moody's had previously assigned an A3 to this Series on April 16, 2015 but the sale at that time was canceled and the ratings were withdrawn. We had also affirmed the A3 rating on the existing \$114 million Lafayette Communications System Revenue Bonds and the A1 rating on the currently outstanding Lafayette, Louisiana (LUS) \$238 million Utilities Revenue Bonds on April 16, 2015. The outlook for all bonds is stable.

SUMMARY RATINGS RATIONALE

The A1 rating of the utility revenue bonds reflects the well managed combined utility's operating record; the consistently sound finances; timely rate changes and flexibility to manage utility system costs. The combined electric, water and wastewater utility serves the City of Lafayette, Louisiana. 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. About 80% of utility revenues are derived from the electric system. The rating also considers the strength of the service area, which has experienced favorable economic growth and increased investments, with personal incomes, employment and population expanding over the past decade. The unemployment rate, which has been below 5% in the last couple of years, recently increased to 5.6% in January 2015 due to lower energy prices but is still lower than the averages for the State and the US. LUS has sufficient capacity in all of its services to manage the growth projected in the utility's forecast. Environmental compliance costs related to the RPS2 coal-fired generation facility remain a longer term uncertainty.

The A3 rating of the communication system revenue bonds reflects the sound fundamentals of and contingent support provided by the city's A1 rated combined utility (utility system). The utility system, which includes power, water and wastewater services has demonstrated sound financial metrics with coverage in excess of 1.75 times and liquidity levels of more than 200 days of cash, on a three year average basis; a diversified, reliable and low cost power supply; competitive retail rates; and a manageable capital plan. The lower rating of A3 on the communication system revenue bonds also considered: the limited record of financial self-sufficiency; the subordinate lien position in the flow of funds of the combined system and a competitive business environment, despite the recent positive trends of increasing market share and customer base growth owing to a competitively priced product offering. Additionally factored into the rating is the utility's overall service area which has relatively low unemployment levels, high per capita income and an increasingly diversifying economy, which has reduced the dependence on the highly volatile oil and gas industry.

OUTLOOK

The stable outlook on the combined utility revenue bonds is based on management's continued sound approach to ensuring the utility has the required capacity to meet demand growth resulting from the expanding local economy. We expect the utility will maintain stable financial metrics by implementing base rate hikes to offset increased purchased power costs.

The stable outlook on the communication system revenue bonds is based on management's projections for improving financial performance of the communication system, its competitive prices and outlook to increase market share coupled with the demand growth resulting from the expanding local economy. We expect the communication system will improve its financial metrics by increasing customer accounts and market share.

What Could make the Rating go UP:

The combined utility revenue bond rating could be upgraded should the combined utility improve its fixed obligation charge coverage (FOCC) ratio in excess of 2 times and liquidity of more than 250 days of cash on a three year average basis consistently. The communication system revenue bond rating could be upgraded if along with the improvement in the combined utility financial metrics, communications system's financial position continues to strengthen with coverage of about 2 times and days cash of about 150 days on a three year average basis consistently.

What Could make the Rating go DOWN:

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 suffered resulting in a coverage of less than 1.75 times on a three year average basis. The communication system revenue bond rating could be lowered if the combined utility's financial metrics weaken and/or the communications system is unable to continue its financial self-sufficiency owing to net revenues being significantly lower than management projections.

STRENGTHS

- *Lafayette's economy continues to grow with population, income and employment gains
- *Electric, water and wastewater systems have sufficient capacity to manage current level growth for the forecast period
- *Strong liquidity

CHALLENGES

- *LPPA, the JAA with which combined utility system has a take-or-pay, is exposed to the potential for increased capital expenditures that could be required to make RPS2 compliant with EPA's carbon emission reduction rules
- *Ongoing regulatory compliance for water and wastewater systems
- *Cost recovery framework includes unregulated rate-setting and favorable performance of the local economy
- *Exposure of the communication system business to competitive pressures

RECENT DEVELOPMENTS:

LUS reported operating revenues of about \$248 million in FY2014, 6.1% higher than the \$233 million in FY2013. Net revenues are about \$50 million in FY 2014, a 5% growth on FY 2013. The growth in operating revenues is broadly in line with past trends. Fixed obligation charge coverage (FOCC) is at about 1.8 times in FY 2014 compared to 1.72 times in FY 2013. On a three year average basis, the FOCC was about 1.9 times, in line with other highly rated utilities. Going forward we expect the FOCC to be lower as the debt service obligation has increased from \$12 million in FY2012 to about \$23 million in FY2014, and will remain level till FY2028 and then decline to final maturity in FY2035.

In FY2014, communication systems further improved its performance from FY2013 when it achieved self-sufficiency. The debt on the communication system weighs on the financial profile of the combined system because the communication system bond resolution requires the combined utility revenues to supplement the debt service payable on communication system bonds if the communication system revenues were insufficient. In FY 2014, communication system operating revenues increased by 17% to \$32.1 million from \$27.4 million in FY2013.

The communication system reported net revenues of about \$15.7 million in FY 2014 after paying operating expenses and debt service. In FY2014, coverage was about 1.6 times and liquidity was at about 83 days of cash. Based on management projections, going forward we expect the debt service coverage for the communication bonds to increase to about 2 times in the next 2-3 years because of the savings from the refunding of Series 2007 bonds but the coverage will stabilize at about 1.5 times from FY 2018 onwards. Liquidity is expected to improve to about 150 days of cash on a three year average basis. Moody's calculation of the coverage incorporates the debt service on the notes payable to the combined utility.

Lafayette Public Power Authority(LPPA) - a joint action agency of which LUS is the sole participant is a joint owner of RPS2, along with Cleco Power (rated A3, negative outlook) and Louisiana Energy Power Authority (LEPA: rated A3, stable outlook). LPPA has a 50% ownership interest in the facility. Cleco Power is the operator of the facility. Recently, the joint ownership agreement between LPPA, CLECO and LEPA was extended till June 2032. Reportedly, Cleco Corporation, the owner of Cleco Power has signed an agreement to be acquired by a group of North American long-term infrastructure investors led by Macquarie Infrastructure and Real Assets and British Columbia Investment Management Corporation, together with John Hancock Financial and other infrastructure investors.

RPS2 has exhibited consistent performance with a heat rate of about 11,000 Btu/kwh in the last five years. The equivalent availability has been in the 84% range for the past five years but for FY 2014 it has been lower at about 64% owing to scheduled outages related to the planned Mercury and Air Toxic Standards (MATS) compliance upgrades. These indicators are near peer generation units for that period. Forced outage factor was 3.8% over the past five years but for FY 2014 it was 34.5% owing to MATS related compliance upgrades. Excluding the outages related to MATS compliance the forced outage rate was in line with past years, at 6.9%. LPPA has proceeded on its plan to meet expected environmental regulatory standards on the RPS2 coal-fired generation facility. In 2012, LPPA issued \$65.2 million of revenue bonds to finance its share of the cost of the capital to comply with MATS and this was achieved in 2013.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

Lafayette Utilities System is owned by the City of Lafayette and electric rates are not regulated externally and are set by the City Council. LUS is obligated to purchase all output from the LPPA-owned RPS2. LUS customer payments for electric services include 100% of the cost to keep LPPA whole.

The take-or-pay obligation with LPPA is an O&M expense of the utility. Customer base is diversified and about 98% of the electric revenues are from retail customers with little wholesale market sales. LUS is not overly reliant on any of its large customers, with the top ten customers contributing only 8% of the revenues in FY 2014. 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.

As per MoodysEconomy.com, despite the slump in oil prices, Lafayette's expansion remains in place. Total payroll growth, when measured on a year ago basis, is outpacing the U.S. and Louisiana averages. Gains have been broad-based, with tourism and manufacturing making the largest contributions. Natural resource-related industries are posting more modest gains, and in a trend running opposite to most Louisiana metro areas, state government employment is on the

rise. The unemployment rate has risen to 4.7% in November 2014, a full percentage point higher than January levels. Yet, the uptick should not be interpreted as a sign of weakness, as the labor force is expanding at a pace above the South States average. Strength exists beyond the labor market as well; steadily rising wages have lifted demand for housing, pushing single-family starts near their prerecession high. Lafayette's expansion is unlikely to be derailed, but growth will slow heading into 2015. Manufacturing will drive gains, though falling oil prices have the potential to limit demand. Tourism will also add to growth owing to strengthening regional recovery.

Recently companies such as Bell Helicopter, CGI, Enquero and Perficient have announced plans to establish their facilities in Lafayette. As per utility management, together these companies, could create about 1110 new direct jobs apart from the indirect jobs. But for Bell Helicopter, which will establish an assembly facility, the other three intend to establish their delivery centers, and have cited the communication system as one of the reasons for choosing Lafayette.

LUS has been well managed with each of the 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 utility serves primarily residential customers and large general service customers, largely retail with a small amount of wholesale sales. The resource mix derives a significant amount of its energy from its ownership interest in the RPS2 coal-fired generating unit providing 260MW capacity. LUS obtains 171MW capacity from the Doc Bonin natural gas fired generating facility and 192MW of combined peaking capacity from two simple cycle units. Natural gas is purchased through a master agreement with The Energy Authority, which also helps LUS perform Midcontinent Independent System Operator, Inc. (MISO) market transactions. LUS capital improvement plan for the electric service is about \$40 million between FY 2015 and FY2019.

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 18 wells with overall sufficient water treatment capacity of 50.6 million gallons per day (MGD) and 31 MGD peak demand. The LUS water system capital improvement plan amounts to \$14 million between FY2015 and FY2019 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 peak in the 6MGD range. The LUS wastewater system capital improvement plan includes \$47 million between FY2015 and FY2019 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. LUS has \$114 million of bonds outstanding. While financially independent of the LUS electric, water and wastewater system financials except for start-up loans, there is a relationship in that 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 debt service. The Utilities System owns the fiber optics telecommunications system known as LUS Fiber. It is a 65-mile multiple strand fiber backbone supporting broadband data, high speed internet access for wholesale customers. The system offers triple play communications (high speed internet, telephone and cable TV) since February 2009.

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 capital improvement plan includes about \$38 million between FY2015 and FY2019 primarily for installations and equipment.

FINANCIAL OPERATIONS AND POSITION

The combined electric, water and wastewater utility has a sound financial record with debt service coverage in excess of 2.0 times in FY 2014. 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 1.9 times between FY2012 and FY2014 and was 1.8 times in 2014. Going forward the FOCC will decrease owing to the increased debt service obligations but we expect that the utility will increase electric base rates in the next two years in order to maintain the FOCC in the 1.75 range 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 2014, days cash on hand was about 238 days.

Since the communication system bonds have a subordinate lien on the combined utility revenues, Moody's stressed debt service coverage using the FY2014 combined utility net revenue in the calculation and assuming LUS had to support the communication system debt service, the debt service coverage would still be about 1.5 times. If this stressed coverage ratio were to also consider the debt service portion of LUS' take-or-pay obligation payment to LPPA, then the combined utility FOCC for FY2014 would be about 1.4 times.

DEBT AND OTHER LIABILITIES

Lafayette Combined Utility has about \$238 million of revenue bonds outstanding. The communication system has about \$114 million of revenue bonds outstanding.

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

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. 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, which provides financial stability. Management can utilize the automatic charge without City Council approval. A potential weakness is that LUS can transfer to the Lafayette Consolidated General fund up to 12% of previous fiscal year's gross revenues. In the past, the Lafayette City-Parish Council has only authorized these transfers to be about 10% of gross revenues. The offsetting factors to the extra burden the utility takes on are: the amount of the General Fund transfer is according to an agreed upon formula capped at 12% of previous fiscal year's gross revenues and the transfer can only be made if 7.5% of non-fuel revenues have been set aside for capital additions and improvements. LUS has thereby clearly demonstrated a willingness to ensure that competitive rates are established to maintain sound financial metrics including strong debt service coverage ratios and liquidity.

KEY CHARACTERISTICS:

Debt Ratio, FY 2014: 30.6

Operating Ratio, FY 2014: 71.7

Combined Utility FOCC, Three Year Average (2012-2014): 1.9x

Combined Utility FOCC, FY 2014: 1.80x

Combined Utility Debt Service Coverage (Bond ordinance basis), FY 2014: 3.04x

Days Cash on Hand, FY 2014: 238 days

PUBLIC POWER RATING METHODOLOGY-LAFAYETTE UTILITIES SYSTEM

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

1. Cost Recovery Framework: (25% weight) (Aa)
2. Willingness to Recover Costs and Maintain Sound Financial Metrics (25% weight) (A)
3. Management of Generation Risk- (10% weight) (Baa-lack of fuel diversity)
4. Rate Competitiveness: (10% weight) (Baa)
5. Financial Strength:
 - Sub factor a) Adjusted Days Liquidity on Hand: (10%weight) (233) (Aa)
 - Sub factor b) Debt Ratio: (10% weight) (33.0) (Aa)
 - Sub factor c) Fixed Obligation Charge Coverage: (10% weight)(1.9x) (A)

Methodology Indicated rating: A1

*The lower rating of A3 for the communication system is based on its subordinate lien of the A1 rated combined utility and considers the combined utility system's lower fixed obligation charge coverage, higher leverage owing to the off-balance sheet nature of the LPPA debt, and structural subordination of the communication system debt. Also factored is the weak debt service reserve. Further the competitive nature of the communication business is unlike the combined utility business and is also incorporated in the A3 rating.

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.

LEGAL SECURITY

Combined Utility Revenue Bond are secured by the net revenues of LUS. Rate covenant and additional bonds test is sum-sufficient. The bonds are afforded a maximum annual debt service reserve initially funded with bond proceeds.

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 Series 2015 Bonds are being issued by the City of Lafayette, State of Louisiana (the "City" or "Issuer") for the purposes of refinancing all or a portion of the City's Communications System Revenue Bonds, Series 2007 and paying costs of issuance of the Series 2015 Bonds.

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PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Public Power Electric Utilities with Generation Ownership Exposure published in November 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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