STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Lafayette, Louisiana; Combined Utility; Retail Electric

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Summary:

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Credit Profile		
US$91.5 mil communications sys rev rfdg bnds ser 2015 due 11/01/2031		
Long Term Rating	A+/Stable	New
Lafayette comb util		
Long Term Rating	AA-/Stable	Upgraded
Lafayette comb util		
Long Term Rating	A+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services has raised its underlying rating (SPUR) on Lafayette, La.'s senior-lien combined utility revenue bonds to 'AA-' from 'A+', and its rating on the subordinate-lien communications system revenue bonds to 'A+' from 'A'. At the same time, Standard & Poor's assigned its 'A+' rating to Lafayette's series 2015 communications system revenue refunding bonds. The outlook is stable.

The upgrade reflects our view of the utility system's sustained strong fixed charge coverage and liquidity levels, and the communication system's improved cash flow.

The ratings reflects a pledge of Lafayette's Utilities System's (LUS) combined water, sewer, and electric systems, which secures both the senior-lien and communications system revenue bonds. Communication system revenues also secure the related bonds, but the 'A+' rating reflects only the LUS' subordinate-lien pledge to cover debt service obligations if net communication system revenues are insufficient. The subordinate lien results in a one-notch rating differential.

We believe additional rating strengths include the city's role as a regional economic center, providing stability to the employment and customer base, as well as the employment base's overall diversity.

We believe that the tempering factors include risks underlying the communications venture, which began serving customers in 2009. It competes directly with other providers, unlike the LUS' traditional services, which are essentially monopolies. While the start-up venture's market penetration was in line with original projections, it was not until early 2012 that the system generated enough positive cash flow to fully support its operating and debt service expenses. Since then, the communications system has continued to increase market share and improve cash flow. We believe the LUS' financial performance remains strong and that it has ample capacity to support the telecom bonds, in the event that the communications system is unable to make annual debt service payments or even cease operation.

Bond proceeds will refund the communication system's 2007 revenue bonds outstanding.

We have assigned to the LUS a business profile of '4', on a scale from '1' to '10', '1' being the lowest risk. The business profile reflects what we view as the system's rate-setting autonomy, diverse and growing customer base, adequate overall operations, and slightly above-average electric system rates.

The electric system has the most customers, at about 65,300, and typically provides about 80% of total operating revenues. The LUS serves a population of more than 124,000, including a small number of customers outside city limits. Growth in metered accounts remains steady, because the Lafayette metropolitan area remains one of the highest performing in the state. Median household effective buying income is above the state average, and on par with the national average. Its growth rate is among the fastest in the U.S. Unemployment as of January 2015 was 5.5%. Given the depth and diversity of the regional economy, which anchors that of the five surrounding parishes as well, we believe LUS does not rely on any of its principal customers for annual operating revenues.

The system's financial and operational risk profiles have remained solid, in our view, even when stressing it for communication system contingent risks as well as off-balance sheet obligations to the Lafayette Public Power Authority (LPPA) for the authority's 50% interest (246 megawatts) in unit 2 of the Rodemacher plant for the bulk of the LUS' baseload energy requirements. While the system does have some purchased power agreements in place -- mainly federal hydropower -- the current management preference is for local control and therefore to remain vertically integrated. The LPPA is simultaneously issuing about $28 million of refunding bonds, for which the LUS will be contractually responsible for the related debt service.

The system's obligation to pay the debt service on LPPA debt is part of its fuel cost adjustment. Given the operational strengths, financial performance has remained high. Annual debt service coverage is typically 2.0x or more even when including an in-lieu-of-tax transfer payment to the consolidated city-parish general government. Fixed-charge coverage, which factors in the transfers as well as off-balance sheet debt issued by LPPA, but which we treat as debt-like, is what we view as strong, at about 1.6x in fiscal 2013 (audited). The LUS's financial forecast based on unaudited results for fiscal 2014 (year ended Oct. 31) indicate similar fixed charge coverage through 2019. These high historical and projected margins help offset concerns about the telecom venture's risks. Liquidity is what we view as strong, with unrestricted cash, including capital additions funds, equal to about six months of expenditures in fiscal 2013.

Water and sewer operations are also favorably situated. The LUS has already addressed, fully funded, and now closed previous regulatory mandates on its sanitary sewer system that many urban utilities are only now just beginning to deal with. Lafayette's raw-water supply comes from 18 wells, which are tapped into the Chicot aquifer and have not had any issues with long-term quality or quantity. Both the water and wastewater operations comply fully with all permit requirements.

The combined utility's capital improvement plan (CIP) through fiscal 2019 has $107 million in projects, most of which are in the electric and wastewater systems. In the long term, The LUS expects to fund 61% of the CIP with cash, and the remainder with bonds. CIP projects will upgrade, renew, and expand the system to meet customer growth requirements. Funds from the capital additions fund will cover 61% of the CIP, and debt 35%.

Outlook

The stable outlook reflects Standard & Poor's expectation that the LUS' strong financial profile is sustainable, in line with management's projections. We do not expect to raise the ratings in the next two years. If financial results, particularly fixed charge coverage, declined significantly, we would like lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011

Ratings Detail (As Of April 21, 2015)		
Lafayette comb util		
Long Term Rating	A+/Stable	Upgraded
Lafayette retail elec		
Long Term Rating	AA-/Stable	Upgraded
Lafayette communications sys		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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