



Fitch Rates E. Baton Rouge Sewerage Commission, LA Revs 'AA-'; Affirms Outstanding Debt

Ratings

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Fitch Ratings-Austin-31 March 2009: Fitch Ratings assigns an 'AA-' rating to the East Baton Rouge Sewerage Commission, Louisiana's (the commission) \$165 million revenue bonds, series 2009A. The bonds are expected to be sold via negotiated offering during the month of April. In addition, Fitch affirms the 'AA-' rating on the \$187.8 million outstanding parity revenue bond debt. The Rating Outlook is Stable.

The series 2009A bonds are payable from and secured by (1) the net proceeds of a 1/2% sales and use tax levied and collected within East Baton Rouge Parish (the parish), after payment of debt service on \$49.9 million in outstanding non-refundable public improvement sales tax revenue bonds issued by the parish and after payment of collection expenses; and (2) net revenues of the commission's wastewater system (the system), after payment of operation and maintenance expenses. Series 2009A bond proceeds will be used to finance the construction of system improvements.

The 'AA-' rating reflects the dual pledge securing the bonds, the system's sound financial profile, the recent gains in population and sound local economy, and presently healthy debt service coverage levels. Offsetting credit considerations include a very large capital program required to improve the system (driven primarily by a 2002 consent decree entered into by the commission and the U.S. Environmental Protection Agency), and the economically sensitive nature of the pledged sales tax revenues. While future borrowings are likely to pressure debt service coverage levels, Fitch believes the combination of conservative cost and revenue estimates, combined with various funding alternatives, provide a measure of financial flexibility for the commission. Fitch also cites as a credit strength the complementary nature of the two revenue streams - the top 10 lists of sales taxpayers and wastewater customers contain no common names.

The current parish population is roughly 430,000, and this total includes an estimated 15,000 permanent increase due to the relocation of evacuees of Hurricanes Katrina and Rita in 2005. The increased parish population since the storms accentuates the need for the wastewater system improvements included in the commission's capital improvement program. The capital plan presently totals a sizeable \$1.2 billion, a significant increase from previous estimates and a reflection of a shift in emphasis to rehabilitation and expansion of existing facilities.

The 1/2% sales tax has been collected since 1989 and has funded pay/go system improvements and supported debt service on several series of sales tax revenue bonds, \$50 million of which remains outstanding. Growth in receipts was steady since initiation of the tax, averaging 4% annual increases from 1989-2004. Revenues jumped sharply in the fourth quarter of 2005 due to the influx of hurricane evacuees - posting a nearly 35% gain over the same period in 2004; receipts climbed more than 15% for the entire year. Growth continued in 2006, with collections registering a more than 10% increase. Although growth slowed to 1% in 2007, 2008 witnessed a stronger 4.7% gain to nearly \$41.7 million. Parish officials remain cautious in their projections of future sales tax revenue growth given recent population fluctuations; they included a 3% increase in receipts in the 2009 budget. Officials report January collections were up 4.6% over the same period last year.

The financial profile of the system is sound, characterized by substantial liquidity. Cash levels have climbed steadily over the past six years, due primarily to a series of sewer rate increases that officials imposed in anticipation of this borrowing program. Consequently, the average monthly wastewater bill has more than doubled since 2000 and at 1% of median household income is at the upper end of Fitch's affordability range. At 2008 year-end the system reported available cash and investments totaling a sizeable \$321.7 million, the equivalent of more than 2,900 days of expenditures. While Fitch anticipates that this liquidity level will drop significantly over the next several years as the commission applies monies to capital projects, it is expected to remain at satisfactory levels.

Estimated annual debt service coverage as a result of this offering and anticipated borrowings from 2010-2013 trends down from more than 3 times (x) in 2010 to roughly 1.5x by 2013. While Fitch views this potential erosion of coverage as a credit weakness, it notes that the commission is using conservative cost and revenue estimates and also is considering various funding alternatives (e.g. commercial paper program, increased borrowing through the state bond bank), which likely would reduce borrowing costs for this timeframe. A significant erosion in debt service coverage over the next five years likely will have negative credit implications for the commission.

In 1947 voters in the parish and the City of Baton Rouge (the city) approved a consolidation of most local government services for the city and the parish, one of the first local government consolidations in the United States. The structure, which was initiated in 1949, includes a mayor-president and a 12-member metropolitan council. The commission was formed in 1986 to construct, acquire, improve, operate and maintain the system. The parish metropolitan council also serves as the board of commissioners for the system.

The local economy, while characterized by some concentration in the petrochemical industry, retains a fair amount of diversity through state government, higher education, financial services and healthcare. Unemployment rates, which had climbed considerably in the months following the hurricanes, dropped in 2006 and 2007 as the state economy recovered. The most recently available monthly figure of 5.2% (January 2009), while up from recent months due to the national recession, was below the state (5.7%) and national (7.6%) averages for the month. Although a

number of high-profile construction projects are planned for the next several years, the current slowdown in housing construction and weakness in the oil and gas sector likely will limit economic growth in the Baton Rouge area over the near term.

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