

New Issue: East Baton Rouge Sewerage Commission, LA

MOODY'S ASSIGNS A1 RATING TO EAST BATON ROUGE SEWERAGE COMMISSION'S \$165 MILLION REVENUE BONDS, SERIES 2009

A1 RATING AFFECTS \$360.2 MILLION IN PARITY DEBT, INCLUDING CURRENT ISSUE

Water/Sewer
LA

Moody's Rating

ISSUE	RATING
Revenue Bonds, Series 2009	A1
Sale Amount	\$165,000,000
Expected Sale Date	04/02/09
Rating Description	Revenue

Opinion

NEW YORK, Apr 3, 2009 -- Moody's Investors Service has assigned an A1 rating to East Baton Rouge Sewerage Commission's \$165 Revenue Bonds, Series 2009. The bonds are secured by a combined pledge of a ½% dedicated sales and use tax as well as net revenues of the system. At the same time, Moody's has affirmed the A1 rating on \$195 million in outstanding parity debt. Proceeds from the bonds will be primarily used to fund projects related to the Commission's sanitary sewer overflow (SSO) program.

Assignment of the A1 rating reflects the large, diverse and growing service area, healthy debt service coverage that exceeds stated bond covenants, and strong financial management. The rating also reflects a moderate debt ratio which is projected to increase with a substantial capital improvement plan for the future.

STRONG ECONOMIC ACTIVITY CONTINUES

The Parish is located approximately 80 miles northwest of the City of New Orleans and over the last three years, the Parish has significantly increased its population and economic development following Hurricane Katrina. Officials report that over 18,500 jobs have been created and the population has increased from 415,000 to an estimated 480,000 since the hurricane. An estimated 2,400 jobs will be created during 2009 which is favorable given the National recession. A surge in home values occurred in the immediate months following the hurricane although Parish officials state that they have returned to more normal levels. Over the last five years, the full valuation has increased an average of 7.4% annually and in fiscal 2009, the full valuation increased 9.9% reaching a substantial \$34.6 billion derived from an assessed valuation of \$3.8 billion.

Strong economic factors remain in the Parish such as a large petrochemical industry and the State government, Louisiana State University, and several large medical facilities providing economic stability. Exxon Mobil is the largest property taxpayer accounting for 8% of the tax base. Tax base expansion has historically been driven by reappraisals as well as new construction from residential and retail and commercial developments. Officials report that while the pace of growth is slowing, strong development is still occurring throughout the Parish. Moody's believes tax base growth will continue although it will likely follow the National trend and somewhat taper in the near to medium term.

PLEGGED REVENUES PROVIDES HEALTHY COVERAGE

The bonds are secured by a ½% sales and use tax as well as net revenues of the system. The pledged revenues from the 1/2% sales tax are net of annual debt service owed on Series 2005 as that debt receives priority on the ½% sales tax. Prior to 2005, the 1/2 % sales tax revenues were modestly growing at 2% annually. In 2005, sales taxes increased 15.9% over the prior year as a surge in population and replacement of goods followed Hurricanes Katrina and Rita in the last four months of the year. This notable increase in sales taxes was followed by a 10.9% increase in 2006, a 1% increase in 2007 and a 4.7% increase in 2008. For fiscal 2009, officials are projecting a slight decrease of 2% to \$42.4 million. The debt service on the prior lien bonds (Series 2005) approximates \$6.8 million annually. After payment on the prior lien bonds, the pledged sales tax revenues approximate \$36 million for fiscal 2009.

Sewerage user fees comprise the majority of the sewer system revenues and rate fee increases have been implemented by the Parish Council on an annual basis. Net revenues available for debt service in fiscal 2008, including sales tax revenues and excluding prior lien sales tax debt and operating and maintenance expenses, totaled \$60 million. In 2008, pledged revenues provide 2.6 times debt service coverage on projected aggregate debt service of approximately \$22.5 million. Officials intend to continue increasing the user fee by 4% annually to continue support future debt needs. The additional bonds test is adequate at 1.25 times annual debt service; however, the rate covenant is a narrower 1.15 times annual debt service. Moody's believes the willingness and ability of the Council to regularly impose user fee increases is a key factor in the A1 rating assignment.

STRONG FISCAL MANAGEMENT

The Parish has historically demonstrated strong financial management, which Moody's believes will continue over the long term. The General Fund balance consistently remains at least equal to 30% of General Fund revenues. In fiscal 2006, the fund balance totaled \$118 million which was a strong 42% of General Fund revenues. The 2007 year ended with \$126 million in the total fund balance with \$28 million, or 31.8% of General Fund revenues, unreserved. General Fund revenues, in fiscal 2007, were supported 54.9% from sales taxes and 8% from property taxes. The fund balance is projected to decrease slightly due to some one time capital expenditures. Moody's believes the healthy fund balance is appropriate given this reliance on sales tax revenues and demonstrates the prudent fiscal management at the Parish.

LARGE CAPITAL IMPROVEMENT PLAN

The East Baton Rouge Parish has a large capital improvement plan due primarily to address an EPA consent decree and also to meet the demands of a growing population. Between 2010 and 2015, the Parish has approximately \$930 million in planned debt needs for multiple system improvements including the SSO program. The current deadline for the decree is January 15, 2015. The A1 rating recognizes the substantial debt plans for the System and that coverage will likely be negatively impacted by this future debt. Moody's recognizes that the leverage of the security will be necessary to fund the needed capital projects but that ongoing rate increases will continue to support healthy debt service coverage.

KEY STATISTICS

2008 Population estimate: 480,000

2009 Full Valuation: \$34 billion

Full value per capita: \$72,178

Rate of principal repayment (10 years): %

2008 net revenues debt service coverage: 2.6 times

Additional Bonds Test: 1.25 times

Rate covenant: 1.15 times

2007 General Fund balance: \$126 million (45% of General Fund revenues)

Post-sale parity debt: \$360 million

RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

The East Baton Rouge Parish sales tax rating was assigned by evaluating factors believed to be relevant to the credit profile of the issuer such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) the issuer's management and governance structure related to payment. These attributes were compared against other issuers both within and outside of the Parish's core peer group and the Parish's rating is believed to be comparable to ratings assigned to other issuers of similar credit risk.

The last rating action on the East Baton Rouge Sewerage Commission was on July 26, 2006 when an initial A1 rating was assigned.

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