

Market Spotlight: Alabama Utility and GO Transactions

Radian recently provided credit enhancement for several utility systems within the State of Alabama. These utilities provide some combination of water, sewer, and electric service to communities that are small, but stable, with strong demographics. These systems are sole providers of an essential service to their communities. Another recent deal that we spotlight is backed by a general obligation pledge of the county. The utility deals are secured by a pledge of net revenues, a debt service reserve fund, a sufficient maximum annual debt service (MADS) rate covenant and an additional bond test (ABT). Although two of these utility deals were issued as warrants, the other such deals were revenue bonds, and included a first mortgage lien on the relevant portion of the system.

The deals ranged in size from \$1 million to \$10 million with final maturities as far out as 35 years. The proceeds from each deal were used to refund existing debt and/or make improvements to the utility system. The credits did not have public underlying ratings, but Radian deems them investment grade quality.

These issuers accessed the market at lower interest rates based on Radian's "AA" rating. In general, the issuers were able to obtain yields that ranged from +30-40bps over the Municipal Market Data Line AAA GO Index.

Brief descriptions of recent deals within the state are included below:

Town of Cleveland, Water and Sewer Revenue Warrants

Par: \$1,290,000, UW: Gardnyr Michael Capital, Inc., Dated Date: 7/1/06

- The water and sewer systems serve about 1,100 and 300 customers, respectively. The customer base is expected to increase with the completion of Hwy 459 linking the town to Birmingham.
- The systems serves primarily residential accounts and has a diverse customer base with major water and sewer customers representing 8.1% of total revenues for the two systems.

Fayette County Water Coordinating and Fire Prevention Authority

Water Revenue and Special Tax Bonds

Par: \$3,785,000, UW: Morgan Keegan & Company, Inc., Dated Date: 6/1/06

- The system has 1,084 customers and is expected to add 90 new customers when improvements, funded by the bond issue are made.
- Pro forma maximum annual debt service coverage (MADSC) is 1.43x in 2005.
- The bonds are additionally secured by a special tobacco tax generating over \$138,000 in 2005. The average water bill would require a 20% rate increase to maintain 1.2x MADSC without the special tax.

Town of Arley, Water Revenue Warrants

Par: \$4,915,000, UW: Frazer Lanier Company Inc., Dated Date: 4/1/06

- The water system has 2,709 customers with a corresponding service area population of 8,000. The customer base is expected to increase by 40% in 10 years due to growth along the shores of Smith Lake.
- Pro forma MADSC is 0.72x and increases to 1.3x including rate increases implemented for the operating year 2006. The water fund has \$533k (1.24x MADSC) in unrestricted cash and no reported additional debt needs until 2012.

The Governmental Utility Service Corp of Vance – Sewer Services

Par: \$3,380,000, UW: Frazer Lanier Company Inc., Dated Date: 4/1/06

- The system has 346 customers and expects to add 150 connections every year with the expansion of the nearby Mercedes-Benz plant.
- The security package for the issue includes a net revenue pledge of the system and all general revenues of the Town of Vance.
- Debt service is paid via lease payments to the Governmental Utility Service Corporation from the Town. The Town has supported the sewer fund historically.
- Pro forma MADSC, inclusive of transfers from the town's general fund, was 1.5x in 2005.

Henry County Water Authority, Water Revenue Refunding Bonds

Par: \$9,580,000, UW: Joe Jolly & Co., Inc., Dated Date: 2/1/06

- The authority is a public water system with 3,264 customers.
- Pro forma MADSC is 1.0x.
- The authority increased its rates by 15% effective earlier this year. Retroactively implementing the increases yields MADSC of 1.3x.

City of Brundidge, Utility Revenue Warrants

Par: \$7,785,000, UW: Morgan Keegan & Company, Inc., Dated Date: 12/29/05

- The city owns and operates its water, sewer and electric system. Enterprise revenues of the entire utility system secure the bonds.
- Pro forma MADSC is strong at 2.2x with current operations.
- The water, sewer, and electric systems have 1,176, 1,047, and 1,385 customers, respectively. There is concentration of utility revenues to Wal-Mart that operates a distribution center within the city. Wal-Mart comprises 39% of the utility system revenues. However, after stressing away Wal-Mart, MADSC was still 1.16x for 2006.

Covington County, General Obligation Warrants

Par: \$6,225,000, UW: H-T Capital Markets, Dated Date: 11/1/05

- The bonds are general obligations of the county and are secured by a 50% pledge of the county's sales tax (\$2.5mm in 2004).
- The county has \$278mm in assessed value in 2004 and the top taxpayer is Alabama Electric Company, which represents 33.5% of the tax base. The company has been there for 50 years and is the sole provider of electricity in the county.

To learn more about how to work with Radian on deals in Alabama or similar utilities, please contact us.

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