S&P Global
Ratings

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Summary:

Lafayette, Louisiana; Sales Tax

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Summary:

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Credit Profile		
US$20.17 mil sales tax rfdg bnds ser 2018A due 03/01/2033		
Long Term Rating	AA/Stable	New
US$18.835 mil sales tax rfdg bnds ser 2018B due 05/01/2034		
Long Term Rating	AA/Stable	New
Lafayette SALESTAX		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating to the City of Lafayette, La.'s series 2018A ($20.17 million) and 2018B ($18.835 million) public improvement sales tax refunding bonds. At the same time, we affirmed our 'AA' long-term rating and underlying rating (SPUR) on the city's parity sales tax revenue debt. The outlook is stable. The city's net direct debt is $220.4 million.

The series 2018A and 2018B bonds are secured by a first-lien pledge of revenue generated by a 1% sales-and-use tax collected by the city, originally authorized in 1961 and 1985, respectively. While the 1961 and 1985 pledges have the same taxing boundaries, we note that the 1985 pledge excludes the sales tax on food and prescription drugs. However, we believe that the sales tax revenue difference has immaterial impact on the coverage or liquidity ratio. Therefore, we rate the 1985 pledge equivalent to 1961 pledge. We rate the bonds under our priority-lien criteria, which factors in both the strength and stability of the pledged revenues, as well as the general credit quality of the municipality where taxes are distributed and/or collected (the obligor's creditworthiness, or OC).

We understand officials intend to use series 2018A and 2018B bond proceeds to refund the series 2009A and 2009B public improvement sales tax Build America Bonds for annual debt service savings.

Key credit considerations include:

- The consistent expansion of Lafayette's economy, supported by its role as a regional commercial-retail and economic center;
- Low revenue volatility, driven by a stable consumer retail sales tax base; and
- Maintenance of at least strong coverage.

Despite the city's additional parity debt plans within the next two years, we believe that the underlying economic strength of the city and the moderate-low volatility ensure that coverage will remain strong over the next two years. Lafayette's general creditworthiness supports the rating on the bonds. Although the city has exhibited overall financial stability and economic fundamentals are relatively strong and trending positive, we believe that its weak debt and liability profile limits financial flexibility. The priority-lien rating on these bonds is not limited by our view of the OC.

Economic fundamentals: adequate-strong

Lafayette, population 129,468, is the fourth-most populated municipality in Louisiana. The city is located in south-central Louisiana, roughly 30 miles north of the Gulf of Mexico. The city serves as a regional economic center (education, medical services, and retail) for the surrounding parishes. Historically, the city's economy was anchored by the oil and gas sector, but it has diversified into the retail, service, commercial, education, health care, technology, and manufacturing sectors. As of 2018, the tax base is diverse, with the leading taxpayers representing 7% of assessed value. While three of the leading taxpayers are in the oil and gas industry, which is prone to volatility, we expect the tax base to remain relatively stable due to the diverse tax base.

The city's market value has shown consistent growth, rising an average of 5% per year for the past three years, totaling $14.1 billion in 2017, which equates to a strong $109,052 per capita. However, we note that the market value per capita is inflated due to a relatively large tax base compared to the size of the population. Income levels for Lafayette residents, as measured by per capita effective buying income, are adequate, at roughly 88% of the U.S. level. At this time, the unemployment rate exceeds the national average, at 5.1%. However, officials expect the unemployment rate to improve over the next two years, as they expect numerous jobs to be added to the technology sector.

Coverage and liquidity: strong

Given the city's additional plans to issue parity debt within the next two years, we based our coverage assessment on additional bonds test. Although the city plans to issue additional parity debt for the 1961 and 1985 pledges, issuing between $20 million and $40 million within the next two years, we expect the maximum annual debt service (MADS) coverage to exceed 2x. Despite the city's additional bonds test requirement of 1.5x MADS, the city has exceeded this requirement in the last 10 years, maintaining at least 1.9x annual debt service and 2.2x MADS for both pledges. Furthermore, the city's additional debt assumptions are conservative, and the city will likely issue less than the projected amount, enabling coverage to remain strong.

For the city's 1961 pledge, the city's tax collection totaled $43 million in fiscal 2017, providing coverage of 3.15x MADS, which occurs in 2022. For the city's 1985 pledge, the city's tax collection totaled $36.2 million in fiscal 2017, providing coverage of 3.26x MADS, which occurs in 2020. While the pledged revenues for fiscal 2018 remained relatively flat, the city expects 1% to 2% growth for the 1961 and 1985 pledges, respectively.

Liquidity is provided through a debt service reserve fund funded at the standard three-pronged test, which is the lowest of MADS, 125% average annual debt service, or 10% of par. With very strong coverage and a low volatility assessment based on our view of the dependability of sales taxes, there is no downward adjustment to the very strong coverage score that would indicate potential liquidity pressures.

Volatility: moderate-low

We assess the volatility of revenues in order to determine the likelihood of the availability of revenues during different economic cycles. We have two levels of volatility assessment: macro and micro.

Our macro volatility assessment begins with an assessment of the historical volatility of the economic activity being taxed, and includes an analysis of societal, demographic, political, and other factors that could affect these activities.

Based on the variance of national economic activity that we believe most closely represents the taxing base over multiple economic cycles, we use historical volatility to inform our opinion on expectations of future volatility. To determine our view of the volatility of sales taxes, we used total sales data from the U.S. Census Bureau for the period 1993-2014.

On a micro level, there is an external influence that we feel worsens the macro assessment of volatility of low. Most of the sales tax revenues are generated from consumer goods, retail stores, and restaurants, which mitigates the risk of sales tax volatility during economically challenging times. However, the city's sales tax declined by roughly 4% during the downturn in the oil and gas industry (fiscals 2009 and 2016), as there is some sector concentration in the energy industry. While we recognize this minor volatility in the sales tax revenues, we note that Lafayette's sales tax revenues have generally increased over the last 10 years. Furthermore, the city expects further sales tax revenue growth once the state begins collecting online sales tax revenues in the near future. Given these factors, we expect the sales tax collections within Lafayette will remain relatively stable throughout economic cycles.

Obligor linkage: close

All sales taxes are collected by the Lafayette Parish School Board's sales tax division and distributed directly to the city on a monthly basis. Once collected by the city, the city distributes the funds to the trustees. Under our criteria, we believe pledged revenues have exposures to operating risk and legal provisions are less restrictive with respect to revenue collection and distribution. We believe this increases the linkage between the priority-lien pledge and the OC, which is indicative of the degree of exposure of the pledged revenue stream to operating risks of the OC.

Rating linkage to Lafayette

We assess the city's general operations because we view overall creditworthiness as a key determinant of an obligor's ability to pay all of its obligations, including bonds secured by a special tax.

The city's economic growth supports its adequate budgetary performance, very strong flexibility, and very strong liquidity. Management's conservative budget assumptions and good practices and policies led to operating surpluses from fiscals 2015 through 2017. For fiscal 2017, the city reported a 4.2% surplus in the general fund and a 6.6% surplus in the total governmental funds, which boosted its available reserves to 49.7% of operating expenditures. However, based on fiscal 2018's unaudited result and the fiscal 2019 budget, we expect the budgetary result to deteriorate somewhat from fiscal 2017 results. For fiscal 2018, the city expects to report a break-even operating result. In fiscal 2019, it plans to draw down roughly $5 million, or 3.5% of operating expenditures. Since the current reserves exceed the city's administrative reserve policy of maintaining 20% of operating expenditures, the council approved this spend down to fund one-time expenditures and salary increases in fiscal 2019. While the city could draw down the reserves further in the near term, it intends to maintain at least $40 million in its reserves for the next two years. In our view, the city's debt and contingent liability profile is very weak, with the net direct debt at 134% of revenues and total governmental funds debt service at 17.8% of governmental funds expenditures. Additionally, the city's unfunded retirement liabilities (63% funded ratio) places a burden on financial performance that we expect to grow over the medium term; we view this as a limiting factor that constrains the city's credit quality. Should revenue growth fail to keep pace with growing pension costs, it could create an operating imbalance that would further pressure the credit.

Outlook

The stable outlook reflects our view of the very strong coverage based on the most recent full year of pledged revenue collections, supported by strong collections of the sales tax revenues. The city's role as a regional economic hub for the surrounding parishes provides additional stability. We do not expect to change the ratings during the two-year outlook horizon. However, under our criteria, there is a link between the attributes of the priority-lien pledge and the OC. Therefore, in some cases movement in the priority-lien rating could be dictated or limited by movement in the OC.

Upside scenario

We could raise the ratings if the city's economic fundamentals improve to levels comparable with those of higher-rated peers.

Downside scenario

We could lower the ratings if, due to revenue volatility, an economic downturn, or additional bond issuance, coverage is substantially diluted, or if the OC deteriorates materially.

Ratings Detail (As Of November 5, 2018)		
Lafayette SALESTAX		
Long Term Rating	AA/Stable	Affirmed
Lafayette 1% sales tax 1961		
Long Term Rating	AA/Stable	Affirmed
Lafayette 1% sales tax 1961 (AMBAC)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Lafayette 1% sales tax 1961 (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Lafayette 1985 1% sales tax		
Long Term Rating	AA/Stable	Affirmed
Lafayette 1985 1% sales tax (AMBAC)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Lafayette 1985 1% sales tax (ASSURED Gty)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Lafayette sales tax		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.