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$25.855 mil taxable ltd tax rfdg bnds ser 2020 due 10/31/2032		
Long Term Rating	AA/Stable	New
US$25.0 mil pub imp sales tax bnds ser 2020D due 05/01/2045		
Long Term Rating	AA/Stable	New
US$25.0 mil pub imp sales tax bnds ser 2020B due 03/01/2045		
Long Term Rating	AA/Stable	New
US$8.095 mil taxable pub imp sales tax rfdg bnds ser 2020A due 03/01/2030		
Long Term Rating	AA/Stable	New
US$5.87 mil taxable pub imp sales tax rfdg bnds ser 2020C due 05/01/2030		
Long Term Rating	AA/Stable	New
US$3.5 mil pub imp sales tax rfdg bnds ser 2020 due 10/31/2034		
Long Term Rating	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to Lafayette, La.'s roughly $8.095 million series 2020A and approximately $5.87 million series 2020C taxable public improvement sales tax refunding bonds, about $3.5 million series 2020 public improvement sales tax refunding bonds, and roughly $25 million series 2020B and approximately $25 million series 2020D public improvement sales tax bonds.

S&P Global Ratings also affirmed its 'AA' rating, with a stable outlook, on the city's parity sales tax revenue debt.

A first-lien revenue pledge--generated by a 1% sales-and-use tax collected by the city, originally authorized in 1961--secures the series 2020, 2020A, and 2020B bonds. A first-lien revenue pledge--generated by a 1% sales-and-use tax collected by the city, originally authorized in 1985--secures the series 2020C and 2020D bonds. While the 1961 and 1985 pledges have the same taxing boundaries, we note the 1985 pledge excludes sales tax on food and prescription drugs. We, however, we think the sales tax revenue difference has an immaterial effect on debt service coverage (DSC) or liquidity. Therefore, we rate the 1985 pledge equivalent to the 1961 pledge.

We rate the bonds under our priority-lien criteria, which factors in both the strength and stability of pledged revenue, as well as the general credit quality of the municipality where taxes are distributed or collected, otherwise known as the obligor's creditworthiness.

We understand officials intend to use series 2020 bond proceeds to refinance portions of series 2009A bonds for debt-service savings and fund a reserve. Officials also plan to use series 2020B and 2020D bond proceeds to finance public works or capital improvements and fund a reserve. They also intend to use series 2020A and 2020C bond proceeds to refinance portions of series ST-2011A and ST-2011B bonds for debt-service savings and fund a reserve.

Credit overview

We believe Lafayette's underlying economic strength and low volatility ensure DSC will likely remain strong during the next two fiscal years. Lafayette's general creditworthiness supports the bond rating. Although the city has exhibited overall financial stability and economic fundamentals are relatively strong and stable, we think, what we consider, its weak debt-and-liability profile potentially limits financial flexibility. Our view of Lafayette's general creditworthiness, however, does not limit the priority-lien bond rating. Under our criteria, there is a link between the priority-lien pledge and obligor's general creditworthiness. Therefore, in some cases, movement in Lafayette's general creditworthiness could dictate or limit movement in the priority-lien rating.

Although we broadly expect sales tax revenue could face pressure for fiscal years 2020 and 2021, reflecting reduced economic activity due to social distancing, the city's status as a regional hub could mitigate some of that pressure.

Therefore, we do not expect to change the rating during the generally two-year outlook; with the current uncertainty surrounding COVID-19 and the related recession, however, our view centers on the more-immediate budget effects on the city during the next six months to 12 months.

The rating reflects our opinion of the city's:

- Expanding economy, supported by its role as a regional commercial-retail and economic center;
- Low revenue volatility, supported by a stable consumer retail sales tax base; and
- Maintenance of, at least, strong DSC.

Environmental, social, and governance (ESG) factors

We have analyzed Lafayette's environmental factors, including health-and-safety risks posed by COVID-19, coupled with social and governance risks relative to the economy; financial management; budgetary performance; and budgetary flexibility, as well as its debt-and-liability profile, and have determined all are in-line with our view of the sector standard. The city views severe weather as its primary environmental threat, and we expect its sizable reserves will likely provide sufficient operating insulation from one-time service disruptions.

Stable Outlook

Downside scenario

We could lower the rating if revenue were to experience volatility, the economic downturn were prolonged, additional bond issuance DSC were substantially diluted, or Lafayette's general creditworthiness were to deteriorate materially.

Upside scenario

All else remaining equal, we could raise the rating if economic fundamentals were to improve to levels we consider comparable with higher-rated peers.

Credit Opinion

Economic fundamentals: adequate-to-strong

Lafayette, with a population estimate of 127,134, is Louisiana's fourth-most populated municipality. The city is in south-central Louisiana, roughly 30 miles north of the Gulf of Mexico. Lafayette serves as a regional economic center--including education, medical services, and retail--for the surrounding parishes. The oil-and-gas sector historically anchors the city's local economy. The local economy, however, has diversified into the retail, service, commercial, education, health-care, technology, and manufacturing sectors. As of 2020, the property tax base is diverse with the 10 leading taxpayers accounting for 6.7% of assessed value.

Market value has grown consistently by an average of 2% annually for the past five fiscal years, reaching $14.7 billion in fiscal 2020, or, in our view, a strong $115,294 per capita. We, however, note Lafayette's relatively large tax base compared to the population's size inflates market value per capita. Per capita effective buying income is, in our opinion, adequate at roughly 91.8% of the national level.

City unemployment averaged 4.6% in 2019 and increased to 13.5% in April 2020 at the start of COVID-19. Unemployment has shown signs of gradual improvement to an estimated 9.3% in June 2020 as more businesses reopen due to loosening restrictions.

DSC and liquidity: strong

We based our DSC assessment on the city's additional bonds test requirement of 1.5x maximum annual debt service (MADS). For the past three fiscal years, the city has maintained annual DSC above 2.7x and 3.1x for the 1961 and 1985 pledges, respectively. Lafayette does not currently plan to issue additional parity debt on either the 1961 and 1985 pledges. We understand that should the city issue additional parity debt, management's goal is to maintain, at least, 2x MADS coverage on both pledges, allowing DSC to remain, what we consider, strong.

For the 1961 pledge, tax collections totaled $44.2 million in fiscal 2019, providing 3.24x MADS coverage, which occurs in fiscal 2022. For the 1985 pledge, tax collections totaled $36.9 million in fiscal 2019, providing 2.97x MADS coverage, which occurs in fiscal 2020. We recognize that after these issuances, MADS for the 1961 pledge occurs in fiscal 2024 at $12.962 million, which would result in 3.4x pro forma MADS coverage based on fiscal 2019 collections. MADS for the 1985 pledge occurs in fiscal 2021 at $11.804 million, which would result in 3.1x pro forma MADS coverage.

While city officials pledged revenue for fiscal 2020 to remain relatively flat, sales tax collections were 8.4% lower than fiscal 2019 due to COVID-19. We think sales taxes could end fiscal 2020 in a better position, considering July 2020 collections, reflecting June sales, increased by 2% over July 2019 collections. While sales tax collections reflecting sales in March, April, and May 2020 were down by 14.9%; 21.1%; and 14.9%, respectively, June 2020 collections could suggest sales tax decreases have hit bottom.

In our opinion, the bonds' descending debt-service schedules under the 1985 pledge and the 1961 pledge, beginning in 2025, will likely support strong DSC in the event COVID-19 results in a prolonged recession that stalls revenue growth.

A debt-service-reserve fund, funded at the standard three-pronged test--the least of MADS, 125% average annual debt service, or 10% of par--provides liquidity. With very strong DSC and a low volatility assessment based on our view of sales tax dependability, there is no downward adjustment to the very strong DSC score that would indicate potential liquidity pressure.

Volatility: low

We assess revenue volatility to determine the likelihood of revenue availability 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 taxed economic activity and includes an analysis of societal, demographic, political, and other factors that could have an effect on these activities. Based on the variance of national economic activity we think most closely represents the taxing base over multiple economic cycles, we use historical volatility to inform our opinion of future volatility. To determine our view of sales tax volatility, we used total sales data from the U.S. Census Bureau for 1993-2014.

On a micro level, we do not think there is an external influence that weakens the macro assessment of low volatility. Most sales tax revenue comes from consumer goods; retail stores; and restaurants, mitigating the risk of sales-tax volatility during economically challenging times. We note Lafayette's sales tax revenue has generally increased during the past 10 years. The city also generates additional sales taxes from collecting online sales tax revenue. Given these factors, we expect sales-tax collections within Lafayette will likely remain relatively stable throughout economic cycles.

Obligor linkage: close

Lafayette Parish School Board's sales tax division collects all sales taxes and distributes them directly to the city monthly. Once collected, the city distributes the funds to trustees. Under our criteria, we think that pledged revenue has exposure to operating risk and that bond provisions are less restrictive with respect to revenue collection and distribution. In our opinion, this increases the linkage between the priority-lien pledge and obligor's creditworthiness, which is indicative of the degree of exposure of the pledged revenue stream to Lafayette's operating risks.

Rating linkage to Lafayette

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

The city's economic growth supports 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 fiscal years 2015-2019. For fiscal 2019, the city reported surpluses of 2.7% for the general fund and 22% across all governmental funds, which boosted available reserves to 53% of operating expenditures.

For fiscal 2020, management was projecting a 9.7% operating deficit due to expected revenue losses related to COVID-19; Lafayette, however, could end fiscal 2020 better than budgeted because sales tax collections for July 2020, reflecting June 2020 sales, totaled more than $7 million, a 2% increase over July 2019 collections. While sales tax collections reflecting sales in March, April, and May 2020 were down by 14.9%, 21.1%, and 14.9%, June 2020 collections suggest sales tax decreases have hit bottom.

The proposed fiscal 2021 budget reflects a 27% sales tax revenue reduction, but we think management will likely continue to revise expectations as it receives monthly data.

Total direct debt is about $673 million. In our view, the city's debt-and-contingent-liability profile is very weak with net direct debt at 159.7% of total governmental-fund revenue and total governmental-funds debt service at 18.8% of governmental-funds expenditures. In addition, the city's large pension obligation and costs, which we expect to grow during the next few fiscal years, could burden financial performance; we consider this a limiting factor that constrains 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.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of August 12, 2020)		
Lafayette pub imp sales tax bnds		
Long Term Rating	AA/Stable	Affirmed
Lafayette SALESTAX		
Long Term Rating	AA/Stable	Affirmed
Lafayette SALESTAX		
Long Term Rating	AA/Stable	Affirmed
Lafayette 1% sales tax 1961		
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 1% sales tax 1961 (MBIA) (National)		
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

Many issues are enhanced by bond insurance.