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Lafayette (Parish of) LA

Update to credit analysis

Summary

Lafayette Parish, LA's (Aa2) credit quality is strong, bolstered by a large and stable tax base which benefits from institutional presence. Additional credit strengths include healthy operating reserves supported by stable property tax revenues and modest debt and pension liabilities driving very manageable fixed costs. Offsetting credit attributes include a limited and narrowing general fund position driven by weakness in the oil and gas sector which has driven declines in sales tax revenues.

Credit strengths

» Large and moderately growing tax base; local economy benefits from institutional presence

» Healthy operating reserve position

» Modest debt and pension liabilities with manageable fixed costs

Credit challenges

» Narrowing and limited general fund reserves

» Exposure to oil and gas industry has weakened employment and sales tax collections

Rating outlook

Moody's generally does not assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

» Substantial economic expansion and diversification

» Material improvement in general fund position coupled with maintenance of healthy operating fund reserves

» Significant improvement in credit profile of the city and consolidated government

Factors that could lead to a downgrade

» Tax base contraction

» Deterioration of reserves

» Substantial additional leveraging absent tax base growth

» Deterioration in the credit quality of the city and consolidated government

Key indicators

Exhibit 1

Lafayette Parish	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$17,662,756	$18,485,048	$19,216,498	$20,246,272	$22,159,203
Population	224,719	228,084	231,811	234,963	238,230
Full Value Per Capita	$78,599	$81,045	$82,897	$86,168	$93,016
Median Family Income (% of US Median)	103.6%	103.6%	105.5%	101.5%	100.7%
Finances					
Operating Revenue ($000)	$57,742	$60,400	$61,314	$62,402	$64,257
Fund Balance ($000)	$74,266	$37,608	$44,365	$47,873	$52,704
Cash Balance ($000)	$76,052	$76,399	$77,905	$80,344	$85,671
Fund Balance as a % of Revenues	128.6%	62.3%	72.4%	76.7%	82.0%
Cash Balance as a % of Revenues	131.7%	126.5%	127.1%	128.8%	133.3%
Debt/Pensions					
Net Direct Debt ($000)	$64,245	$61,820	$59,080	$56,235	$53,290
3-Year Average of Moody's ANPL ($000)	N/A	N/A	N/A	N/A	$52,948
Net Direct Debt / Full Value (%)	0.4%	0.3%	0.3%	0.3%	0.2%
Net Direct Debt / Operating Revenues (x)	1.1x	1.0x	1.0x	0.9x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	N/A	N/A	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	N/A	N/A	0.8x

Available fund balance includes amounts restricted for operations in various operating funds - see financial discussion for list of funds; pension breakdown for consolidated government obtained for fiscal 2017 and used for prior two years to generate three year average
Source: Lafayette's CAFRs, Moody's Investors Service

Profile

The parish, along with the city, is part of the Lafayette Consolidated Government, located in south central Louisiana, about 135 miles west of New Orleans (A3 stable) and 60 miles west of Baton Rouge (Baton Rouge Combined City-Parish Government, Aa2 stable issuer rating). The parish's population is approximately 238,000.

Detailed credit considerations

Since consolidating in 1996 under a voter approved home rule charter, Lafayette Parish and the City of Lafayette have been governed by a City-Parish Council and Mayor President. Per the charter, the two entities remained legally separate entities. The funds both entities were have always been kept strictly separate with moneys flowing between the two only for the administrative and shared costs including the finance department, elected officials, public works, etc. On December 8, 2018, voters approved amendments to the home rule charter, most notably to separate the governing authority into a Parish Council and a City Council effective in 2020. While the two governing bodies will have to jointly approve the cost allocations and shared services budget, all other decisions regarding the parish and parish activities will be decided by the Parish Council. We note that per the state constitution, it is the governing authority's responsibility to enforce the full faith and credit and unlimited tax pledge securing the parish's rate debt. Previously our analysis considered the financial position of the consolidated government as a whole but given the shift in the governing authority as well as the legal security for general obligation debt in Louisiana, our analysis focuses on the parish financial position while also considering the consolidated government.

Economy and tax base: institutional presence and regional draw keeps large tax base stable despite weakness in oil and gas industry

Ongoing development and institutional presence will provide stability for the local economy despite recent weakness in the oil and gas sector. While the oil and gas sector continues to represent more than 8% of employment within the parish, ongoing development in other sectors and the city's role as a regional trade, retail, and entertainment hub are helping mitigate the recent weakness in the oil and gas sector. Over one million tourists visit the area annually. Big box retailers have opened in recent years, and the parish continues to see new small businesses opening up along with additional retail and restaurant development offsetting some closures. A strong local fiber network has attracted several technology firms to the area. Substantial health care and higher education presence also provide stability. Two of the top ten employers in the parish are medical centers. Lafayette is home to the University of Louisiana-Lafayette that has an enrollment of over 19,000 and is the second largest university in the state. The university has reached new peak enrollments in each of the last few years and is working on a large student housing complex.

The parish's tax base is large and has realized steady growth in recent years. As of fiscal 2017, the parish's estimated actual value (full value) is sizeable at $22.2 billion after growing 5.8% on average annually over the past five years. The base is relatively diverse with the top ten taxpayers accounting for 8.2% of assessed values. Residential development is ongoing though recent permits are down. Several hundred apartments are also under construction. Overall, officials report modest levels of development and anticipate stable tax base values over the next several years.

While the population trends have been strong, employment trends in the region have weakened since 2014, as indicated by a shrinking labor force and declining number of jobs. The estimated population as of 2017 is 238,230, up 7.5% from the last census. As of December 2018, the parish's unemployment rate was 3.9% which was below to the state (4.3%) but higher than the nation (3.7%) for the same period. While unemployment is at a favorable level, the labor force still remains 9.2% lower than its peak in 2014. Resident income levels are consistent with national levels and are likely somewhat depressed given the large university presence. As of the 2017 American Community Survey median family income was 100.7% of the national level.

Financial operations and reserves: parish general fund struggles following slowdown in oil and gas but operating funds remain very healthy

The parish's overall financial position will remain strong supported by solid financial management, conservative budgeting, and a stable revenue stream but the parish general fund will be challenged to rebuild liquidity absent additional revenues. The parish's general fund has realized five deficits over the last six years largely driven by sales tax declines. Sales taxes are the largest revenue stream for the parish general fund and have fallen more than 30% over the last several years. Despite efforts to reduce expenditures, the general fund balance has continued to fall. As of fiscal 2017 (October year end), the available general fund balance of $1.6 million was a relatively narrow 12.8% of revenues. Key general fund expenditures include a transfer to the city general fund for the parish's allocated share of administrative functions and several non-mandated expenses such as contributions to volunteer fire departments within the parish that provide additional flexibility for further cuts. For fiscal 2018, officials project further weakening of the fund as sales taxes saw further deterioration. The 2019 budget was adopted with a $660,000 draw but officials note sales taxes are exceeding budget year-to-date in 2019. There is no target reserve policy for the parish general fund. Voters rejected several new millage proposals within the last year that were intended to support the volunteer fire department payments. Officials continue to evaluate additional areas for expenditure cuts and limiting general fund subsidies required for other funds. There has also been some early discussion about approaching voters to request a portion of the library fund balance, which is a very healthy $42.5 million as of fiscal 2017, be unrestricted and available for general use.

As is typical in Louisiana, the majority of the parish's key operating functions and mandated expenses are held outside of the general fund reflecting the specific voter approved revenue streams for those operating functions. In addition to the parish's general and debt service fund, the operating funds include the road and bridge, drainage, adult correctional facility, courthouse and jail, juvenile detention, and library funds for consistency across other county-like governments across the country. The operating funds are largely dependent upon property taxes which have been much more stable than sales taxes. As a result, the operating funds have exhibited strong performance and have consistently realized surpluses. The fiscal 2017 available operating funds balance, which includes funds restricted in those operating funds for operations and maintenance but not capital, totaled $52.7 million, or a healthy 82% of revenues. Several operating funds have significant amounts restricted for capital which may be utilized in the coming years for capital projects as needed which would drive decreases in the total fund balance and cash.

The parish's operating fund revenues are significantly reliant on property taxes which comprised 80.9% of total fiscal 2017 operating revenues. With the exception of the constitutional millage, all property and sales taxes have been approved by voters, some for specific purposes. The governing authority can roll forward the millage in a reassessment year to increase revenues, and officials report that the government has examined each millage on a case by case basis to determine whether additional revenues are needed for operations. For several funds, the millage has been more than sufficient for operations. Positively for the parish general fund, the state began collecting sales taxes on all online sales beginning January 1, 2019. While the parish was already collecting sales taxes from online sales at very large online retailers, the statewide collection on all online sales is positive.

LIQUIDITY

Liquidity in the parish's general fund has narrowed along with fund balance and totaled $1.5 million as of fiscal 2017 or an adequate 11.8% of revenues. The parish's operating funds, on the other hand, held $86.6 million in cash as of fiscal 2017 equating to a very healthy 133.3% of revenues. While very healthy, a portion of this cash reflects amounts restricted for capital projects in various of the operating funds. The liquidity positions of both the general fund and operating funds will likely continue to move in tandem with operational performance.

Debt and pensions: manageable long term liabilities

The parish's long term liabilities and fixed costs will remain manageable given no firm issuance plans. As of fiscal 2017, the parish had $53.3 million in outstanding general obligation unlimited tax (GOULT) bonds equating to a low 0.2% of full value and 0.8 times operating revenues. While the parish still has authorization for $19 million of unlimited tax bonds for library projects, officials report no library capital needs and do not expect any additional GOULT issuance absent voter approval.

DEBT STRUCTURE

All of the parish's debt is fixed rate and amortizes over the long term. Annual debt service is around $5.3 million through fiscal year 2026 then falls to $4 million in 2027 before continuing to decline annually through maturity in 2035. Payout is average with 72.5% of principal amortized within ten years.

DEBT-RELATED DERIVATIVES

The parish is not party to an interest rate swap or derivative agreements.

PENSIONS AND OPEB

The consolidated government participates in six statewide cost-sharing defined benefit plans, whose benefits and contribution rates are determined and set by the state legislature. Of the six plans to which the consolidated government contributes, the parish contributes to three of the plans (Municipal Employees Retirement System, Parochial Employees Retirement System, and Registrar of Voters Retirement System) and accounted for approximately 9.4% of total contributions in fiscal 2017. Various city-parish shared funds contributed about 3.6% of total contributions with the remainder coming from city enterprises (24.1%) and city funds (63%); the city enterprise and city fund contributions as well as their proportional liabilities are excluded from this analysis. As of fiscal 2017, the parish's total Moody's adjusted net pension liability (ANPL) under our methodology for adjusting reported pension data is $52.6 million or modest 0.8 times revenues and 0.2% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities.

During fiscal 2017, the parish contributed $2.6 million net of enterprise and city contributions. These contributions were exceeded the Moody's calculated “tread water” level of $2.1 million. The “tread water” indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions. Contributions above this level cover all net pension liability interest plus pay down some principal; this is stronger from a credit perspective compared to contributions below this level. Ratios comparing government contributions to the “tread water” level and “tread water” costs to government revenues shed light on budgetary fixed cost burdens. Officials anticipate the state will continue to increase required contributions but likely at a gradual pace.

The consolidated government provides other post-employment benefits (OPEB) in the form of retiree healthcare to its employees. The plan is currently funded on a pay as you go basis, and in fiscal 2017, the consolidated government contributed approximately $2.5 million to the plan, of which a portion was funded by parish funds. At fiscal year end, the plan reported an actuarial accrued liability of $29.6 million, all of which was unfunded.

In fiscal 2017, fixed costs including debt, pensions, and OPEB totaled $10.3 million or a modest 16.1% of operating revenues. If the parish had contributed to the pension plans at the “tread water” amount, total fixed costs would have consumed 15.3% of operating revenues. Fixed costs will likely remain relatively modest and manageable given no future issuance plans and moderate pension contribution increases expected from the state.

Management and governance: governing authority for consolidated government to split in 2020

Since consolidating with Lafayette Parish in 1996 per a voter approved home rule charter, the city has been governed by a City-Parish Council and Mayor-President. In December 2018, voters approved amendments to the home rule charter, most notably the separation of the legislative body into a separate City Council and Parish Council effective January 2020. The city and parish have always maintained separate funds but the budget was approved by the joint City-Parish Council. After January 2020, the two councils will have to jointly approve the shared administrative budget but will otherwise approve the city and parish funds' budgets separately.

The consolidated government uses conservative budgeting practices and monitors the budget monthly. The financial staff is tenured and oversees a complex system of funds for the city, parish, and enterprises. A consultant is hired to ensure accurate cost allocations for shared services between the city and parish.

Louisiana parishes have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources, property taxes and sales taxes, are largely subject to voter approval, with the exception of the constitutional millage. The requirement for voter approval limits revenue-raising ability. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Louisiana is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

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