MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Lafayette (Parish of) LA

Update to credit analysis

Summary

The credit profile for the Parish of Lafayette, LA (GOULT Aa2) is stable overall. Despite a modest contraction expected for fiscal 2021 due to a decline in oil and gas values, the tax base should remain stable, and is anchored by a large university and several healthcare facilities. Finances are healthy when considering operating funds, but remain narrow in the general fund. The general fund does have sales tax exposure, which accounts for around 40% of total revenues. Positively, year-to-date collections have remained in line with prior years', and have not materially declined through September 2020. The direct debt and pension burdens are both manageable. The profile is constrained by the average income indices.

Credit strengths

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

» Modest debt and pension liabilities with manageable fixed costs

Credit challenges

» Narrow and limited general fund reserves; the general fund has some exposure to economically sensitive revenues

» Some exposure to oil and gas concentration, which is expected to result in an assessed value decline in fiscal 2021

Rating outlook

Moody's typically 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

Factors that could lead to a downgrade

» Tax base contraction

» Deterioration of reserves

» Substantial additional leveraging absent tax base growth

Key indicators

Exhibit 1

Lafeyette Parish, LA	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$19,216,498	$20,246,272	$22,159,203	$22,496,870	$23,286,673
Population	231,811	234,963	238,230	240,091	240,091
Full Value Per Capita	$82,897	$86,168	$93,016	$93,701	$96,991
Median Family Income (% of US Median)	105.5%	101.5%	100.7%	96.1%	96.1%
Finances					
Operating Revenue ($000)	$61,314	$62,402	$64,257	$65,708	$68,355
Fund Balance ($000)	$44,365	$47,873	$52,704	$51,940	$50,040
Cash Balance ($000)	$77,905	$80,344	$85,671	$94,240	$97,433
Fund Balance as a % of Revenues	72.4%	76.7%	82.0%	79.0%	73.2%
Cash Balance as a % of Revenues	127.1%	128.8%	133.3%	143.4%	142.5%
Debt/Pensions					
Net Direct Debt ($000)	$59,080	$56,235	$53,290	$50,205	$46,960
3-Year Average of Moody's ANPL ($000)	$128,126	$76,695	$52,948	$52,948	$52,948
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.2%	0.2%	0.2%
Net Direct Debt / Operating Revenues (x)	1.0x	0.9x	0.8x	0.8x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.4%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.1x	1.2x	0.8x	0.8x	0.8x

Source: Parish's CAFRs; Moody's; US Census (MFI)

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 (A2 stable) and 60 miles west of Baton Rouge (Baton Rouge Consolidated City-Parish Government, Aa2 stable issuer rating). The parish's population is approximately 244,000.

Detailed credit considerations

Economy and tax base: institutional presence and regional draw keeps large tax base stable

In the immediate term, the tax base is expected to remain stable, anchored by a large university and two medical centers. Further, given the parish's location along two major highways (I-10 and I-49), Lafayette acts as a regional hub for the local area. Lafayette is home to the University of Louisiana-Lafayette, the second largest system in the state, educating around 19,000 students. The University is currently holding in-person and remote classes, and will close for the holidays at the end of November. Along with the college, top employers include two medical centers, local government and retailers (Wal-Mart). Officials report that despite the pandemic, residential and commercial construction has not slowed, with several apartment complexes and small restaurant chains under development. CGI, SchoolMint and KOPTER are expanding, adding hundreds of professional jobs to the area.

The parish's base is large, with a full value of approximately $23 billion. Fiscal 2021 assessed values (AV) declined to $2.6 billion from fiscal 2020's $2.8 billion. The 5% contraction is attributed to volatility in oil and gas values. Given the parish budgets conservatively, and regularly assumes revenues well below actuals, the decline in AV is not expected to materially impact reserves.

Financial operations and reserves: parish general fund remains narrow, but operating funds are healthy

The parish's financial position is not expected to deteriorate during the pandemic. Primary operating revenues include property taxes (78%), which are stable. Sales taxes do not represent a large portion of the operating budget (less than 10%), and collections are in line, if not higher, than prior year's.

Regarding general fund performance, Lafayette ended fiscal 2019 (October 31 year-end) with a $671,000 surplus, increasing fund balance to $1.3 million, or an adequate 10.3% of revenues. In contrast, operating fund balance, including the general fund, various capital funds, and debt service fund, was $95.6 million, or a very healthy 140% of operating revenues.

In April 2020, the fiscal 2020 general fund budget was adjusted to reflect a decline in sales taxes to $4.5 million (compared to fiscal 2019's $4.9 million). Unaudited results indicate that sales taxes actually increased to $5.3 million, attributed to online shopping, and people coming to Lafayette to shop or access medical services. Officials anticipate increasing general fund balance to $1.5 million. Operating reserves are reportedly stable and in line with prior year's $96 million.

The fiscal 2021 adopted budget assumes general fund revenues of $11.6 million and expenditures of $12.2 million. The small deficit is driven in large part by the assumption that sales taxes will decline further to $3.9 million. Based on actual performance to date, this scenario is unlikely.

Debt and pensions: manageable long term liabilities

The parish is not overly leveraged, and direct debt and pension liabilities should remain around current levels going forward. At 0.2% of full value, the parish has a modest direct burden that consists solely of $44.5 million in GOULT bonds. Ten year principal amortization is above average at 80.4%. There are no immediate debt plans.

The Moody's calculated pension burden is modest, at around 0.8 times operating revenues. Fixed costs, including debt service and pension contributions, remain around 11% of operating revenues, which is in line with peers'.

Legal security

The bonds are general obligations of the Issuer for which its full faith and credit is pledged to the payment thereof. The bonds are payable from the annual levy and collection of unlimited ad valorem taxes on all the taxable property within the boundaries of the Issuer sufficient to pay the bonds in principal and interest as they mature.

ESG considerations

Environmental

Environmental risk for the parish is moderate, with natural hazards such as heavy rainfall, flooding, and hurricanes being the primary drivers of environmental risk. Positively, the parish is slightly above sea level and around 30 miles north of the Gulf, which helps to mitigate the negative impact of flooding. In the most recent Hurricanes to hit Louisiana (Laura and Delta), the parish reported wind damage, but no water damage. Lafayette spent around $500,000 in clean-up efforts, of which 75% should be reimbursed by FEMA.

Social

Social considerations contribute to the relative stability of the parish's local economy, with population trends and income indices relatively level. Similar to other local governments, the parish's unemployment rates have increased during the coronavirus pandemic, and sit at 6.8% as of September 2020 relative to the nation's 7.7%.

Governance

Since consolidating in 1996 under a voter approved home rule charter, Lafayette Parish and the City of Lafayette have been governed by a Consolidated City-Parish Council and Mayor President. The funds of both entities 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 January 2020. While the two governing bodies will have to jointly approve the cost allocations and shared services budget, all other decisions regarding the city and city activities will be decided by the City Council.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching adjustments dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Lafeyette Parish, LA

Scorecard Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$23,286,673	Aaa
Full Value Per Capita	$96,991	Aa
Median Family Income (% of US Median)	96.1%	Aa
Notching Adjustments:[2]		
Institutional Presence		Up
Economic Concentration		Down
Finances (30%)		
Fund Balance as a % of Revenues	73.2%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	18.2%	Aa
Cash Balance as a % of Revenues	142.5%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	30.8%	Aaa
Notching Adjustments:[2]		
Other Scorecard Adjustment Related to Finances:		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.1x	Aaa
Notching Adjustments:[2]		
Other Scorecard Adjustment Related to Management:		Down
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.2%	Aaa
Net Direct Debt / Operating Revenues (x)	0.7x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.2%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.8x	Aa
Notching Adjustments:[2]		
Unusually Strong or Weak Security Features		Up
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aa2

(1) Economy measures are based on data from the most recent year available.
(2) Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
(3) Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: Moody's; US Census

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