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Summary:

Lafayette Parish, Louisiana; General Obligation

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Summary:

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Credit Profile		
US$10.77 mil GO rfdg bnds ser 2014 due 03/01/2030		
Long Term Rating	AA/Stable	New
Lafayette Parish GO		
Long Term Rating	AA/Stable	Upgraded
Lafayette Parish GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating on the parish of Lafayette, La.'s general obligation (GO) debt to 'AA' from 'AA-' based on strengthening economic indicators and very strong budgetary flexibility and liquidity. At the same time, Standard &Poor's assigned its 'AA' rating to the parish's series 2014 GO refunding bonds. The outlook on all ratings is stable.

The bonds are secured by an ad valorem tax levied against all taxable property within the parish. Officials will use proceeds to refund a portion of the parish's debt for savings purposes. The city and parish of Lafayette consolidated their governments and began combined financial reporting in fiscal 1996. The city and parish, however, remain separate entities responsible for their own GO debt.

The rating reflects our assessment of the following factors for the consolidated government:

- Adequate economy, which benefits from its direct participation in the broad and diverse Lafayette metropolitan statistical area (MSA);
- Strong management conditions with good financial policies;
- Very strong budgetary flexibility with 2013 audited reserves greater than 15% of general fund expenditures;
- Strong budgetary performance;
- Very strong liquidity providing very strong cash levels to cover expenditures; and
- Weak debt and contingent liabilities position, driven by continued capital needs.

Adequate economy

We consider Lafayette's economy to be adequate with direct access and participation in the Lafayette MSA. The city is located 218 miles east of downtown Houston and 135 miles west of New Orleans. Characteristic of the region, the local economy has largely been driven by oil, gas, and petrochemical-related industries. However, the parish's economy has diversified into the retail, commercial, educational, and light-manufacturing sectors. New developments in the city included multiple retail businesses and expansions of national big-box retailers, and the opening of restaurants and a high-end grocery store. In the last three fiscal years, parish unemployment has decreased to 4.4% in fiscal 2013, from 5.7%, trending well below the state rate of 6.2%. Major employers include Lafayette Parish School System (4,538 employees), Lafayette General Medical Center (2,684), and the parish itself (2,379). Among the top 10 largest employers, four companies are in the oil and gas sector.

The parish has a projected per capita effective buying income of 108% of the U.S. average. Per capita market value for the city was $73,760 for fiscal 2014. The parish has continued to experience assessed valuation (AV) growth of an average of 5% per year since fiscal 2011. For fiscal 2014, AV increased roughly 6% to approximately $1.87 billion from $1.77 billion a year earlier. The tax base is diverse, in our opinion, with the 10 leading taxpayers, accounting for 10.2% of fiscal 2014 AV. Management anticipates AV will continue to grow at current levels for the next two fiscal years.

Very strong budgetary flexibility

In our opinion, budgetary flexibility remains very strong, with reserves averaging roughly 24% of expenditures for the past three fiscal years. Although the consolidated government intends to draw slightly from reserves ($1 million) this year, the level will likely remain unchanged. For audited fiscal 2013, reserves were $27.3 million, or 28% of expenditures. Management aims to build available reserves to 30% of expenditures within the next two fiscal years.

Strong budgetary performance

Lafayette's budgetary performance has been strong overall with a surplus of 4.4% for the general fund in fiscal 2013, and after making adjustments for one-time expenditures and use of bond proceeds, and break-even operations in total governmental funds. Lafayette's main sources of general fund revenues in fiscal 2013 included property taxes (23%), utility system payments in lieu of taxes (22%), and sales taxes (34%). For fiscal 2014, the consolidated government is projecting a slight general fund budget deficit of $1 million; however, officials suggest the fiscal year could close with a slight budget surplus or break-even results. Total governmental funds operating result is expected to be break-even, prior to making any adjustments. Lafayette's management team has traditionally budgeted conservatively by overestimating expenditures and underestimating revenues to achieve positive budget performances.

Very strong liquidity

Supporting Lafayette's finances is liquidity we consider very strong, with total government available cash to total governmental fund expenditures and to debt service both above 100%. We believe Lafayette has a strong access to external liquidity given its frequent debt issuance in the past two decades.

Strong management conditions

We view management conditions as strong, with good financial practices. Financial practices exist in most areas although governance officials might not formalize or regularly monitor all of them. There are no formal debt management policies. The consolidated government has a formal five-year capital improvement plan and a three-year financial management plan that is updated every year. Revenue and expenditure assumptions are based on historical trends and an analysis of probable economic changes that could affect collections. Management regularly monitors budget performance and provides reports to the board, which can amend the budget as necessary.

Weak debt and contingent liability profile

In our opinion, the consolidated government's debt and contingent liability profile is weak, with total governmental fund debt service at 17.4% of total governmental fund expenditures, and net direct debt at 149.1% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, which we view as a credit strength. The consolidated government is scheduled to retire slightly more than 50% of its debt in the next 10 years and nearly 100% in 20 years. We consider the amortization schedule to be average. The parish has no immediate plans to issue GO debt in the near term.

The consolidated government provides pension benefits for eligible retirees through four separate state-administered, multiple-employer retirement systems. The government contributed its annual required contribution to the four systems, or a total of $15.9 million, in fiscal 2013. The consolidated government also provides retiree health care benefits, which it funds through pay-as-you-go financing. Other postemployment benefit (OPEB) contributions were $1.6 million in fiscal 2013.

Very strong Institutional Framework

We consider the Institutional Framework score for Louisiana counties with revenue greater than $500,000 as very strong.

Outlook

The stable outlook reflects our view that management will continue to maintain very strong reserves and effectively manage growth challenges. We believe economic growth fueled by the oil and gas, retail, and commercial sectors will further strengthen the Lafayette's financial position. Should, economic metrics improve in terms of a higher market value per capita, we could raise the rating. We do not anticipate lowering the rating given the consolidated government's overall credit strength.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013