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Summary:

Lafayette Parish, Louisiana; General Obligation

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Summary:

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Credit Profile		
US$21.0 mil GO rfdg bnds ser 2020 due 03/01/2035		
Long Term Rating	AA/Stable	New
Lafayette Parish GO		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to Lafayette Parish, La.'s roughly $21 million series 2020 taxable unlimited-tax general obligation (GO) refunding bonds and affirmed its 'AA' rating, with a stable outlook, on the parish's existing GO debt.

The bonds are secured by, and payable from the annual levy and collection of, unlimited ad valorem taxes on all the taxable property within the boundaries of the parish.

The parish is part of the Lafayette Consolidated Government (LCG), and it shares an administration with the city of Lafayette; the parish, however, is the sole issuer of the bonds.

We understand officials intend to use series 2020 bond proceeds to refund series 2010 GO and GO refunding bonds for interest savings.

Credit overview

Lafayette Parish is located along the Gulf Coast and serves as a regional economic hub in the southern Louisiana. The parish reported operating and total governmental results in fiscal 2019, and we expect the positive trend to continue for the next two years. The parish's primary operating revenue source is sales tax revenues. Despite the mandated shutdown and recessionary pressure related to COVID-19, sales tax revenues increased for fiscal 2020, and officials expect they will remain at least steady for fiscal 2021. Officials also eliminated 1% of parishwide positions to prepare for the worst-case scenario in order to sustain its finances. Additionally, the rating partially reflects the strength of Lafayette's management team, who practices conservative budgeting, leading to actual results outperforming budgeted assumptions. We expect management will likely continue to monitor budget-to-actual performance closely and make adjustments as necessary. Therefore, we do not expect to change our rating during the next few years. Although our outlook is generally for two years, we recognize the potential for downside risk because of COVID-19 and the related recession during the next six months to 12 months.

For more information on the coronavirus' effect on U.S. public finance, see the reports "Potholes On The Road To Recovery," published Sept. 29, 2020, on RatingsDirect and "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020.

The rating reflects our opinion of the parish's:

- Adequate economy, with projected per capita effective buying income at 90.9% of the national level and market value per capita of $81,398;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 10.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 30.7% of total governmental fund expenditures and 4.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 7.0% of expenditures and net direct debt that is 52.1% of total governmental fund revenue, as well as rapid amortization, with 82.2% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Environmental, social, and governance (ESG) factors

Given the parish's location along the Gulf Coast, we view the environmental risks as elevated. Although hurricanes Laura and Delta only minimally affected the parish's tax base and finances, the parish is exposed to severe weather events. For the 2020 hurricane season, LCG's hurricane debris cleanup costs were roughly $485,000, 25%, or roughly $127,000, of which the parish is responsible for. Most of the damage was from fallen trees, and the hurricanes did not damage the properties or public assets. We also analyzed the parish's social and governance risks relative to its economy, management, financial measures, and debt and liability profile, and we view them as in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the parish's budgetary performance or reserves deteriorate below current levels.

Upside scenario

We could raise the rating if economic expansion leads to stronger per capita income and market value and if the reserve level increases to a level comparable with those of peers.

Credit Opinion

Adequate economy

We consider Lafayette Parish's economy adequate. The parish has an estimated population of 245,934. The county has a projected per capita effective buying income of 90.5% of the national level and per capita market value of $81,398. The county's market value fell by 6.3% over the past year to $20.0 billion in 2021.

Lafayette Parish is located roughly 30 miles north of Gulf of Mexico, 218 miles east of downtown Houston, and 135 miles west of New Orleans. Historically, the local economy has largely been driven by oil, gas, and petrochemical-related industries, but the parish's economy has diversified into the retail, commercial, educational, and light-manufacturing sectors. The parish also serves as a leading regional trade, retail, and medical center. Major employers include Waitr (5,915), Lafayette General Health (4,298), Lafayette Parish School System (4,250 employees). Among the top 10 largest employers, four companies are in the oil and gas sector.

The parish's tax base has experienced steady growth in recent years, though it declined by 6.3% for fiscal 2021 due to reassessment. While land values increased moderately, taxable values related to the oil and gas industry (oil and gas wells, machinery, and equipment values) fell due to decreased oil and gas production activities. However, given the parish's diverse tax base--the leading taxpayer accounts for only 7.4% of assessed value--and growth in other sectors, we do not expect the oil and gas industry volatility to materially affect the tax base or the parish's finances in the long term. Additionally, officials expect long-term tax base and economic growth based on new residential, commercial, and industrial development. The building permits are up for fiscals 2020 and 2021, new businesses have opened, and jobs are expected to be added in the next two years.

As of October 2020, the parish's unemployment is roughly 6.8%, which is in line with the national unemployment rate of 6.9%. In line with the national trend, Lafayette Parish's unemployment peaked at 14% in April, but have steadily declined since then. Officials expect this positive trend to continue.

Strong management

We view the parish's financial management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

The parish council is Lafayette Parish's governing authority, and the city council is the city's governing authority. The city and parish councils jointly serve as LCG's governing authority. The mayor-president is LCG's chief executive. We understand that in times of fiscal stress, neither the city nor the parish can use each other's funds, except for agreed-upon expenses.

Highlights include management's:

- Conservative revenue budgeting in case of shortfalls and the use of a five-year trend analysis for expenditure assumptions, coupled with some information from outside sources to assist with sales tax forecasting;
- Monthly budget reports to the parish council that include budget-to-actual comparisons, with amendments done as needed;
- Formal long-term financial plan that forecasts general fund revenue and expenditures three years beyond the budget year, which also includes projections for year-end fund balance;
- Formal five-year capital improvement plan that identifies estimated project costs;
- Formal investment management policy that adheres to state statutes, with investments reported at least annually;
- Formalized debt management policy; and
- Informal goal of maintaining at least 10% of operating expenditures in the general fund.

Strong budgetary performance

Lafayette Parish's budgetary performance is strong, in our opinion. The county had operating surpluses of 5.4% of expenditures in the general fund and of 4.3% across all governmental funds in fiscal 2019. Our forward-looking opinion of adequate budgetary performance reflects uncertainty concerning the effect and duration of COVID-19 and the related recession on the parish.

Our view of the parish's operating and total governmental funds include the following funds: parish's general fund and the parish's special revenue funds (Animal Shelter and Care Center, Criminal Court, Road and Bridge Maintenance, Parishwide Drainage Maintenance, Adult Correctional Facility Maintenance, Lafayette Parish Public Library, Courthouse and Jail Maintenance, Juvenile Detention Home Maintenance, Health Unit Maintenance, War Memorial, Combined Public Health, Coroner's Expense, Mosquito Abatement and Control, Storm Water Management, Cultural Economy, and Contingencies Sinking Fund). For analytical consistency, we have adjusted for, what we view as, recurring transfers into and from the general fund and across all governmental funds as well as transfer out to the city for shared LCG services.

Lafayette Parish establishes special revenue funds for dedicated taxes. Therefore, the parish's operating fund is relatively small (the operating budget is $12 million, which includes $6 million recurring transfers out for LCG's shared services), only accounting for operations that do not have a special levy. In fiscal 2019, the parish reported an operating surplus of roughly $670,000 due to conservative budgeting and close monitoring of expenditures. Accounting for the special revenue funds, the parish also reported a surplus in the total governmental funds in fiscal 2019.

Despite eight months of pandemic (fiscal year-end Oct. 31), a mandated closure (March 13 through May 20), and phased reopening, the parish expects to report an operating surplus of $200,000 for fiscal 2020. Officials attribute the surplus to a 9% increase in sales tax revenues compared to fiscal 2019, and a 1% staff elimination to prepare for the worst-case recessionary scenario. Sales taxes are the parish's largest source of general fund revenue (38%), followed by property taxes (31%). Although sales tax revenues dipped in May, they have rebounded since then, coming in higher than in fiscal 2019 each month.

For fiscal 2021, the parish adopted a deficit budget due to conservative revenue assumptions. The parish began formulating the budget in April and, therefore, used the worst-case scenario for the sales tax revenues assumptions. Based on the actual sales tax data for fiscal 2020, sales tax revenues are roughly $834,000 above the original assumption. Additionally, operating revenues will increase by roughly $525,00 due to reallocation of tax revenues from the special revenue funds to the general funds from the November election. Given the favorable sales trend, officials plan to amend the budget in March and expect a surplus result for fiscal 2021.

Strong budgetary flexibility

Lafayette Parish's budgetary flexibility is strong, in our view, with an available fund balance in the general fund in fiscal 2019 of 10.8% of operating expenditures, or $1.3 million.

Based on management's expected surplus in fiscal 2020, and better-than-budgeted operating result for fiscal 2021, we expect the parish's reserves to remain strong for the next two years. Officials informally target to maintain roughly 10% of operating reserves and currently have no plans to draw down the reserves.

In addition to available reserves in the general fund, the parish has roughly $16.2 million in restricted fund balance set aside for capital projects in the special revenue funds. While these funds are restricted, officials note that these funds are fungible and the parish can tap into these reserves with council approval.

Very strong liquidity

In our opinion, Lafayette Parish's liquidity is very strong, with total government available cash at 30.7% of total governmental fund expenditures and 4.4x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

Our view of the parish's liquidity includes parish's cash and liquid investment for the parish, parish's special revenue funds and the parish's enterprise fund (Environmental Services fund).

Lafayette Parish has demonstrated its strong access to external liquidity through its access to capital markets during the past 20 years and property-tax-backed and sales-tax-supported debt issuances. We expect cash will likely remain very strong during the next two fiscal years. Lafayette Parish has neither variable-rate debt nor swaps in its portfolio nor any obligations that would challenge near-term liquidity. Investments are limited to interest-bearing deposits, Louisiana Asset Management Pool, U.S. treasuries and agencies, and repurchase agreements; we consider none of these aggressive.

Strong debt and contingent liability profile

In our view, Lafayette Parish's debt and contingent liability profile is strong. Total governmental fund debt service is 6.9% of total governmental fund expenditures, and net direct debt is 52.1% of total governmental fund revenue. Approximately 82.2% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. We understand officials do not currently plan to issue additional property-tax-backed or sales-tax-revenue-backed debt during the next few years.

Pensions and other postemployment benefits (OPEBs)

The parish participates in the following pension plans:

- Municipal Employees' Retirement System (MERS), which was 64.7% funded. Both city and parish employees participate in MERS, and the parish's portion of the net pension liability is $5.78 million using a 7% discount rate;
- Parochial Employees' Retirement System (PERS), which was 88.9% funded. Both city and parish employees participate in PERS, and the parish's portion of the net pension liability is $7.61 million, using a 6.5% discount rate;
- Louisiana State Employees' Retirement System, which was 62.9% funded with a $786,653 net pension liability, using the 7.6% discount rate; and
- Registrar of Voters Employees' Retirement System, which was 84.8% funded with a $159,882 net pension liability, using a 6.5% discount rate.

Based on our conversation with the auditor, the parish's total net pension liability is roughly $14.3 million. The parish's combined required pension and actual OPEB contributions totaled 16.7% of total governmental fund expenditures in 2019. Of that amount, 16.5% represented required contributions to pension obligations, and 0.2% represented OPEB payments.

Employer contributions are actuarially determined using statutorily established methods annually, and they are constitutionally required to cover the employer's portion of normal costs and provide for the amortization of unfunded accrued liabilities. The parish has historically paid 100% of required contributions to all plans.

The parish funds OPEB liabilities on a pay-as-you-go basis, which, due to claims volatility and medical cost and demographic trends, is likely to lead to escalating costs. As of the latest measurement date, the LCG's OPEB liability is roughly $37 million. Although the officials could not provide the parish's portion of the OPEB liability, we believe that parish's OPEB liability accounts for a small portion of the LCG's total OPEB liability.

Very strong institutional framework

The institutional framework score for Louisiana municipalities is very strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 20, 2020)		
Lafayette Parish GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		