S&P Global
Ratings

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Summary:

Lafayette, Louisiana; Sales Tax

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Credit Profile		
US$16.475 mil pub imp sales tax rfdg bnds ser 2024C due 03/01/2038		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to Lafayette, La.'s anticipated $16.5 million series 2024C public improvement sales tax refunding bonds.
- The outlook is stable.

Security

A first-lien revenue pledge--generated by a 1% sales and use tax collected by the city, originally authorized in 1961--secures the series 2024C bonds.

We rate the bonds under our priority-lien criteria (published Oct. 22, 2018, on RatingsDirect), which factor 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 bond proceeds to refund series 2013 and 2014A for level interest rate savings.

Credit overview

We believe debt service coverage (DSC) will likely remain very strong during the next two fiscal years, given Lafayette's continued economic growth, including new commercial and residential development and expansion of existing employers, and low volatility. In June, Buc-ee's announced plans to open a 74,000-square-foot facility with a projected opening in 2026 that will bring 150 new jobs and be a major support to the city's sales tax and property tax revenue. Lafayette's general creditworthiness supports the bond rating. Although the city has exhibited overall financial stability and relatively strong and stable economic fundamentals, we think its weak debt and liability profile potentially limits financial flexibility. Under our criteria, there is a link between the priority-lien pledge and the obligor's general creditworthiness. Therefore, in some cases, movement in Lafayette's general creditworthiness could dictate or limit movement in the priority-lien rating. Our view of Lafayette's general creditworthiness, however, does not limit the priority-lien bond rating.

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

The rating incorporates our view of the city's environmental, social, and governance factors relative to its economy, management, financial measures, and debt and liability profile, which we view as neutral to our credit analysis. 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.

Outlook

The stable outlook reflects our view of very strong coverage based on the most recent full year of pledged revenue collections, supported by strong sales tax revenue collection trends. We believe the city's role as a regional economic hub provides additional rating stability. We do not expect to change the rating during the two-year outlook period. However, under our criteria, there is a link between the attributes of the priority-lien pledge and the obligor's creditworthiness. Therefore, in some cases, the obligor's creditworthiness could dictate or limit movement in the priority-lien rating.

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 those of higher-rated peers.

Credit Opinion

Economic fundamentals: Adequate to strong

Lafayette is Louisiana's fourth-most populated municipality. The city is in south-central Louisiana, roughly 30 miles north of the Gulf of Mexico. It 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 2024, the property tax base is diverse, with the 10 leading taxpayers accounting for 6.9% of assessed value, including only two oil-related companies.

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 audited fiscal years, the city has maintained annual DSC above 3.8x for the 1961. We understand its capital plan (2026-2029) includes roughly $100 million of potential projects identified for debt financing supported by its two authorized sales taxes. However, the city has not formalized future debt issuance plans and typically targets issuing in increments of about $25 million as existing debt matures. In addition to the 1961 sales tax, it also collects an additional 1% sales tax under a 1985 authorization. The 1985 sales tax is not pledged to the series 2024C.

For the 1961 pledge, tax collections totaled $57.5 million in for audited fiscal year ended Oct. 31, 2023, and reports collections of $57.4 million for fiscal 2024, both of which provide about 4.3x MADS coverage, which occurs in fiscal 2025.

Historically, the city's sales tax collections fluctuated year to year, but have made solid gains in recent years. Sales tax collections experienced a COVID-related dip in fiscal 2020 and quickly rebounded the following year. Since fiscal 2020, the 1961 and 1985 tax collections have increased roughly 30%. The top 10 sales tax-generating entities represent 18% of 2023 collections, and are composed of mostly of general retailers but also include a medical manufacturer and pharmaceutical sales.

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. The city distributes the funds, once collected, 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. Despite recent draws on the general fund, reserve levels have remained very strong and above the city's informal goal of maintaining at least 20% of operating expenses Capital spending generated the deficit for fiscal 2023, but ongoing increases to uninsured losses and wages are primary factors causing projected deficits in fiscal years 2024 and 2025. We understand management has raised its tax levy among other gap-closing measures to resolve the budget imbalance.

In our view, the city's debt is elevated, but the voter-approved sales tax revenue available for debt makes the carrying charge manageable. In addition, its 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 credit quality.

Lafayette, Louisiana -- Key credit metrics

	Metric
Economic data	
Economy	Adequate - Strong
EBI level per capita % of U.S.	97
Population (obligor)	122,357
Population (MSA)	481,125
Financial data	
Revenue volatility	Low
Coverage and liquidity	Strong
Baseline coverage assessment	ABT
MADS coverage (x)	4.3
MADS year	2025
Annual debt service coverage (x)	4.4
3-year pledged revenue change (%)	0.69
Bond provisions	
ABT (x)	1.5
ABT type	MADS
ABT period	Historical
DSRF type	Lowest of 3-pronged test
Obligor relationship	
Obligor linkage	Close
PL rating limit (number of notches above OC)	1

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness.N/A--Not available. 3-pronged test--MADS, 10% of principal, or 125% of average annual debt service.