

RatingsDirect®

Summary:

Youngsville, Louisiana; Sales Tax

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Credit Profile

US\$9.0 mil sales tax rev bnds ser 2022 due 05/01/2042

Long Term Rating A/Stable New

Youngsville sales tax (BAM)

Unenhanced Rating A(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'A' long-term rating to Youngsville, La. series 2022 sales tax bonds (\$9 million).
- At the same time, we affirmed our 'A' rating on the city's outstanding series 2021 sales tax revenue and refunding bonds.
- The outlook is stable.

Security

A 1% sales tax within the city boundaries, authorized initially in 1968 and reauthorized in 2006, secures the series 2021 bonds. The sales tax proceeds are limited to constructing, improving and maintaining the City's waterworks and sewer systems and public streets. The proceeds will support the City's road improvement program, consisting of constructing and improving public streets, roads, alleys, sidewalks, and drainage facilities incidental thereto.

Credit overview

The fastest growing city in Louisiana, Youngsville sits just outside of Lafayette, La. and is experiencing strong residential growth, supported by the diverse regional Lafayette economy. As a result, sales tax receipts grew rapidly, increasing around 20% in each of the past two years. As a result of the growth, the city is leveraging its 1968 1% sales tax to finance capital improvements. This increased the maximum annual debt service (MADS) payment on debt outstanding leveraging this sales tax, but given the rapid growth in sales taxes, MADS remains stable estimated at 1.79x, compared with 1.75x prior to the issuance of this debt. We consider the 1.35 additional bonds test (ABT) as weak, and management indicates it has no desire to approach 1.35x MADS coverage and will want to maintain at least 1.75x MADS if not higher in the future.. As the city grows, we could consider a higher rating but current MADS coverage and ABT levels are not comparable with those of higher-rated priority lien credits at this time.

The rating reflects our view of the city's:

- Adequate-to-weak economic base, with population and residential growth;
- Moderate-to-low volatility, with 50% of the sales tax receipts from the top 10 dealers (one dealer is automotive sales across the city);
- Adequate-to-strong coverage, which we expect will improve, barring future debt issuances; and

- The city's general creditworthiness does not limit the stand-alone credit profile (SCAP) of the sales tax bonds.

Environmental, social, and governance

Given its location near the Gulf of Mexico, we view the cities' environmental risks as elevated as a result of hurricanes and flooding, although we note the city itself has never flooded as a result of a hurricane. City officials note that Youngsville is investing in improving drainage systems to mitigate local flooding. The city did not suffer any substantial damage from the active 2020 hurricane season. For sales tax revenue streams, while there are short term declines in sales tax revenues immediately after a storm, often we see sales tax revenues spike as residents rebuild communities affected by storm. We view the city's social and governance risks as credit neutral in our analysis.

Outlook

Our stable outlook reflects our view on coverage, as annual debt service coverage is more than 3x at this time. We do not expect MADS coverage will materially decline in the near term as the mix of sales tax revenues in Youngsville comes from automotive sales and grocery goods and have shown strong growth in recent years.

Downside scenario

We could lower the rating if coverage unexpectedly declines to levels commensurate with those of lower-rated peers, either due to sales tax declines or if the city decides to leverage these sales taxes for additional debt, pushing MADS close to the 1.35x ABT.

Upside scenario

We could raise the rating if expected growth in Youngsville leads to improved economic metrics on par with higher rated peers, particular in the overall size of the tax base, and if coverage levels continue to improve.

Credit Opinion

Adequate-to-weak economic fundamentals; fastest-growing city in Louisiana

The city is in south central Louisiana in Lafayette Parish, about 10 miles south of Lafayette. Lafayette serves as a regional economic center (education, medical services, and retail) for neighboring parishes, and Youngsville has benefited from growth throughout the region. Sales tax receipts grew by 20% the past two years, with no one sector seeing dramatic growth, officials explain that grocery stores, remote sales, and higher car prices all contributed to growing sales tax revenues. As the fastest-growing city in Louisiana, officials state permit activity is brisk, and, despite higher mortgage rates, housing activity continues to increase in the area. Commercial development also continues, with officials citing development along main street, with new retail arriving. Sports tournaments represent a significant portion of the local economy. Given the ability to host sporting tournaments year-round in Louisiana, officials state that travel teams, including those from outside of the U.S. come to the area, stay in local hotels, and contribute to the local economy. Given recent growth trends, we expect the population will continue to increase, improving economic metrics in the near term.

The local economy is diverse, with the top 10 taxpayers accounting for 8.63% of the total tax base. The top two taxpayers are related to oilfield services, which is similar to the top taxpayers in Lafayette. However, compared with

many other Louisiana local economies, Youngsville and Lafayette have diversified into other industries in recent years. Overall, we believe that broader oil and gas trends will affect the local economy of Youngsville, but given its diverse economy, our view is that the city is more insulated from oil and gas prices swings than other local economies in neighboring parishes.

Adequate-to-strong coverage, with very strong sales tax growth the past two years

For the series 2022 City of Youngsville sales tax bonds, we base our adequate-to-strong coverage assessment on the ABT of 1.35x, with MADS coverage of 1.79 in fiscal 2022. We note that currently, debt service against this 1% sales tax is front loaded even with the new issuance, and MADS generally decreases after 2026, barring any future issuances. Officials do not expect to issue additional debt against this sales tax in the near term, and the city can use excess funds for capital projects. Like the sales tax district, liquidity is provided through a similar debt service reserve. Management plans on never going lower than 1.75x coverage, if the city needs to issue debt in the future, which we consider likely given the rapid growth in the city.

Sales tax receipts have grown since 2016, increasing to more than \$4 million from \$2 million in five years. The city expects sales tax receipts will continue to grow. For July and August of 2022 (fiscal 2023), sales tax revenues are around 10% better than July and August of 2021. Officials expect this trend will continue, and that sales tax growth will slow slightly from 20% growth rates in 2022 and 2021.

Moderate-to-low volatility due to sales tax dealer concentration

We assess the volatility of revenues in order to determine the likelihood of the availability of revenues 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 economic activity being taxed, and includes an analysis of societal, demographic, political, and other factors that could affect these activities. Based on the variance of national economic activity that we believe most closely represents the taxing base over multiple economic cycles, we use historical volatility to inform our opinion on expectations of future volatility. To determine our view of the volatility of sales taxes, we used total sales data from the U.S. Census Bureau for the period 1993-2014.

On a micro level, there is an external influence that we feel worsens the macro assessment of volatility to low. Most of the sales tax revenues are generated from grocery and drug stores, which mitigates the risk of sales tax volatility during economically challenging times. However, the top 10 sales tax dealers constitute 50% of the city's sales tax revenues, a significant portion of the city's overall revenue. This includes automotive sales, which are not recorded at the point of sale, but rather the location of where the vehicle is registered. Even not accounting for auto sales, we consider the top sales tax dealers concentrated. The top sales tax dealer is a grocery store that makes up 7.15% of overall sales tax revenue. This concentration, in our view, adds volatility to sales tax revenues.

Obligor linkage: Close

For both sales taxes, collection is handled by the Lafayette Parish School Board and then distributed to the City of Youngsville.

Under our criteria, we believe pledged revenues have exposures to operating risk and legal provisions are less

restrictive with respect to revenue collection and distribution. We believe this increases the linkage between the priority-lien pledge and the obligor's creditworthiness (OC), which is indicative of the degree of exposure of the pledged revenue stream to operating risks of the OC.

Rating linkage to Youngsville

We assess the city's general operations because we view overall creditworthiness as a key determinant of an obligor's ability to pay all of its obligations, including bonds secured by a special tax.

The city's strong financial position and recent economic growth provide stability to Youngsville's general creditworthiness, with fiscal 2021 results showing reserves over 40%. Given the growth in the city, management has seen strong growth in revenue helping the city maintain balanced operations despite growing capital needs. In addition, based on our conversations with management, we believe they are capable of making necessary adjustments to respond to unexpected budget variances.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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