

RatingsDirect®

Summary:

Covington, Louisiana; General Obligation

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Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Related Research

Summary:

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Credit Profile

US\$4.75 mil GO bnds ser 2023 due 03/01/2043

Long Term Rating

AA+/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the City of Covington, La.'s \$4.75 million series 2023 general obligation (GO) bonds.
- The outlook is stable.

Security

The bonds are secured by an unlimited ad valorem tax levied on all taxable property within the city's boundaries. Bond proceeds will be used to fund essential infrastructure improvements for streets, drainage, sewer collection, sewer plant, and water systems.

Credit overview

The rating reflects our view of Covington's stable, yet limited, local economy with steady sales and property tax growth. Despite its reliance on sales taxes, which can be volatile, the city has historically maintained stable operating performance through revenue growth and conservative budgeting practices, resulting in very strong reserves. Furthermore, we expect reserves will remain very strong in fiscal 2022 based on estimated financial results. Although an economic downturn might soften sales tax performance in fiscal 2023, we believe management can implement budget adjustments as needed. In addition, we expect Covington's debt profile will remain manageable with no near-term debt plans following the series 2023 GO bonds. Lastly, we do not view pension and other postemployment benefits (OPEB) liabilities as an immediate source of credit pressure, as required contributions represent an affordable share of total governmental expenditures.

The rating reflects our view of the city's:

- Expanding local economy, located within the New Orleans metropolitan statistical area (MSA);
- Very strong reserves, with stable budgetary performance;
- Adequate financial management practices and very strong institutional framework; and
- Manageable debt burden with no near-term additional debt needs.

Environmental, social, and governance

We view the city's environmental risks as elevated given its location near the Gulf of Mexico, and its exposure to hurricanes and flooding, which have resulted in damage, most recently from Hurricane Ida. This risk is somewhat mitigated by the city's maintenance of very strong reserves. In our view, the city's social and governance risks are

neutral considerations in our credit rating analysis. Although the city experienced a cyberattack in March 2021, this event did not result in any financial loss. Furthermore, the city has contracted with a third party to provide cybersecurity services for its information technology systems to detect, respond to, and recover from cyberattacks.

Outlook

The stable outlook reflects our view of Covington's stable economy and our expectation that the city will maintain strong performance and very strong budgetary flexibility and liquidity.

Downside scenario

We could lower the rating if the city's budgetary performance weakens, leading to a significant decline in available reserves.

Upside scenario

Although unlikely, we could raise the rating during the two-year outlook period if economic metrics materially improve and the city adopts more formalized long-term financial planning and reserve policies.

Credit Opinion

Steadily growing tax base benefiting from proximity to New Orleans MSA with good income levels

Covington is in southeastern Louisiana, across Lake Pontchartrain from New Orleans. It is the parish seat of St. Tammany. The city's population totaled 11,317 in 2021, and has increased steadily since 2010, resulting in commensurate assessed valuation (AV) and sales tax growth. In our opinion, Covington benefits from its proximity to the New Orleans MSA as an attractive suburb with ongoing residential, commercial, and business development. Although many residents find work within the greater MSA, the population is growing, as many new businesses are moving or expanding within Covington, providing employment opportunities. This growth led to a 24% increase in AV between 2017-2022 and 35% sales tax growth during the same period. Notable near-term developments include a new 140,000-square-foot Amazon distribution center, and expected employment growth from some of the city's major employers, including Hornbeck and Pool Corp. Furthermore, a new \$20 million hospital is under construction, which will likely require at least 100 employees. Given the reported development, we expect the city's tax base will continue to increase modestly, but we do not expect its wealth (market value per capita of about \$138,000 in 2022) and income levels (projected per capita effective buying income of 105.2% compared with the U.S.) will materially change over the next two years.

Very strong reserves, with stable budgetary performance

Covington's strong budgetary performance over the past three fiscal years allowed its reserves to remain at levels that we consider very strong for fiscal 2021, at \$15.3 million or 75% of expenses. In fiscal 2021, the city generated a significant general fund surplus of 20.6% of expenses. The city's revenue performance was bolstered in fiscal 2021, due to an infusion of state and federal grants (\$5.3 million) in response to the COVID-19 pandemic and significant sales tax growth (18%), which, in our opinion, is common following a hurricane due to increased spending for rehabilitation efforts. In addition, Covington requested \$4.8 million in Federal Emergency Management Agency reimbursements.

The city has received \$3.7 million so far, to mitigate increased public works expenses in fiscal 2021 for hurricane cleanup. Overall, Covington has historically outperformed the budget due to stable revenue growth and no significant budget pressures. As a result, we expect that underlying budgetary performance will remain stable. Furthermore, the city estimates a general fund surplus of about \$1 million in fiscal 2022 due to increased sales tax revenues and lower-than-budgeted expenses. Management said that there are no plans to materially draw down reserves in the near term.

Covington's primary source of general fund operating revenue is sales tax (68%), followed by property taxes (15%). Historical sales and property tax growth have been supported by an expanding population base, increasing AVs. Although sales tax revenues can be volatile, particularly during economic downturns, sales tax revenues increased moderately in each year since fiscal 2015.

Adequate financial management practices

In preparing its annual budget, management provides generally conservative revenue and expense assumptions that incorporate historical, economic, and social trends. Management monitors the budget monthly and make adjustments as needed throughout the year. Covington has a formal investment and debt management policy, both of which are somewhat limited in scope, in our view. The city also maintains a five-year rolling capital improvement plan, updated annually along with the budget, but does not list specific funding sources for each project for future years. The city has an informal reserve fund policy of maintaining at least 16% of operating expenses along with a budget deficit contingency that is reviewed and updated annually, which is has historically met or exceeded. The city lacks a formalized policies or practices on long-term financial planning.

The institutional framework score for Louisiana cities is very strong.

Manageable debt burden, with no near-term debt plans

Post issuance, Covington will have approximately \$6.85 million in debt outstanding, including \$6.41 million in GO bonds and approximately \$440,000 in capital leases. The city has no additional near-term debt needs. As a result, we do not expect the debt profile will materially change over the next two years.

The city's series 2016 GO refunding bonds were privately placed (24% of total direct debt). The debt obligations do not contain any nonstandard events of default or provisions, such as acceleration, that we view as a potential liquidity risk.

Pension and OPEB:

We do not view pension and OPEB liabilities as an immediate source of credit pressure, as required contributions represent an affordable share of total governmental expenditures. In our view, the pension plans are relatively well funded, and annual costs remain manageable. As a result, we do not anticipate that the city's liabilities will threaten its fiscal stability in the medium term.

Covington participates in the following plans as of June 30, 2021 (latest measurement date):

- Municipal Employees' Retirement System of Louisiana, Plan A (MERS A): 78% funded, with a proportionate share of the plan's net pension liability of \$4.4 million. Contributions are actuarially determined, and the city has historically fully funded its annual required costs.

- Municipal Police Employees' Retirement System of Louisiana (MPERS): 84% funded, with a proportionate share of the plan's net pension liability of \$2.9 million. Contributions are actuarially determined, and the city has historically fully funded its annual required costs.
- An OPEB plan providing continuing health care benefits to retirees. Net OPEB liability is \$8.9 million with an OPEB funded ratio of 11%; this cost and contributions could increase over time.

Covington, Louisiana--Key Credit Metrics-				
	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	105			
Market value per capita (\$)	137,927			
Population		11,317	11,298	10,587
County unemployment rate(%)		3.8		
Market value (\$000)	1,560,918	1,494,045	1,491,582	
Ten largest taxpayers % of taxable value	11.5			
Strong budgetary performance				
Operating fund result % of expenditures		20.6	2.3	(6.3)
Total governmental fund result % of expenditures		28.0	3.6	3.7
Very strong budgetary flexibility				
Available reserves % of operating expenditures		75.3	65.5	61.2
Total available reserves (\$000)		15,316	10,790	10,433
Very strong liquidity				
Total government cash % of governmental fund expenditures		119	111	109
Total government cash % of governmental fund debt service		3106	2552	2491
Strong management				
Financial Management Assessment	Standard			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.8	4.3	4.4
Net direct debt % of governmental fund revenue	24			
Overall net debt % of market value	1.5			
Direct debt 10-year amortization (%)	45			
Required pension contribution % of governmental fund expenditures		8.3		
OPEB actual contribution % of governmental fund expenditures		1.0		
Very strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

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

- 2022 Update Of Institutional Framework For U.S. Local Governments
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

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