

RatingsDirect®

Summary:

Hammond, Louisiana; Sales Tax

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Summary:

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Credit Profile

US\$11.525 mil Sales Tax Rfdg Bnds ser 2015 due 12/01/2026

<i>Long Term Rating</i>	AA/Stable	New
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Hammond sales tax (CIFG)

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA' from 'AA-' on Hammond, La.'s series 2006 sales tax revenue bonds. At the same time, we assigned our 'AA' long-term rating to the city's series 2015 sales tax refunding bonds. The outlook is stable.

The rating action reflects our opinion of the city's stronger bond covenants, which include an additional bonds test equal to 2x maximum annual debt service (MADS) along with the priority-lien pledge of two sales tax revenue streams rather than one priority-lien pledge and an additional subordinate-lien pledge.

The rating further reflects our opinion of the city's:

- Role as a regional retail and service center for Tangipahoa Parish, and
- Pledged revenue that produced more than 11x maximum annual debt service (MADS) coverage based on fiscal 2014 results.

Partly offsetting the above strengths, in our view, are the city's:

- Moderately concentrated sales tax base, and
- Adequate but below-average per capita effective buying income (EBI).

The bonds are secured by a first-lien revenue pledge of the city's 1% sales-and-use tax, originally authorized by the electorate in 1967, as well as a first-lien revenue pledge of the city's 1% sales and use tax, authorized by the electorate in 1982. Proceeds from the series 2015 issuance will be used to refund a majority of the series 2006 bonds. Prior to the series 2015 refunding bonds, the series 2005 and 2006 bonds held priority liens on the 1% 1982 sales tax and 1% 1967 sales tax, respectively; the series 2005 bonds were recently retired and are no longer outstanding. In addition, any series 2006 bonds outstanding following the issuance of the series 2015 refunding bonds will be on parity with the series 2015 refunding bonds and be governed by the 2x MADS additional bonds test.

Hammond, with an estimated population of 20,421, is on Lake Pontchartrain's north shore, roughly 45 miles east of Baton Rouge and 55 miles north of New Orleans. Hammond is Tangipahoa Parish's largest city, serves as the parish's commercial and retail hub as well as home to Southeastern Louisiana University (15,000 students), and is not

dependent on the oil and gas sector. Several large big-box retailers are in the city, and management reports that Hammond Square Mall's reconstruction and subsequent commercial retail additions have benefited sales tax revenue. In addition, several industrial entities are interested in opening operations in Hammond during the next few years. Reflecting Hammond's role as a retail center, per capita retail sales are, in our opinion, a high 292% of the national level. Given its elevation, the city also plays a major role in the staging of emergency response in Southeast Louisiana and the Gulf of Mexico. Hammond serves as the permanent base of operations for the Louisiana Army National Guard's 1-244th Air Assault Helicopter Battalion and 1-204th Theater Air Operation Command. Although the city's sales tax base is concentrated, with the 10 leading sales tax generators accounting for 36% of collections, most of the top retailers provide necessary goods and services. Per capita EBI is, in our view, adequate, but below the national average at 74% of the national level.

Pledged revenue generated by the 1967 and 1982 sales taxes have demonstrated healthy growth after decreasing by 3.6% in fiscal 2010 as a result of the national economic downturn. Revenue increased by 18% to \$18.28 million in fiscal years 2010 to 2014, providing 11.42x MADS coverage of all parity debt. Management has conservatively budgeted for a 2% sales tax revenue increase for fiscal 2015, but anticipates actual collections to exceed budgeted levels. The city has historically utilized \$10 million to \$12 million of excess pledged revenue to supplement the general fund budget to maintain roughly break-even operations, and this lessens the likelihood that the city will issue additional debt.

Bond provisions feature an additional bonds test that prohibits the issuance of additional parity debt unless pledged revenue from the previous two fiscal years provides at least 2x MADS coverage on existing and proposed bonds. We understand that the city has no plans to issue additional parity debt in the near term. A debt service reserve -- funded at the least of 10% of bond proceeds, 1.25x average annual debt service, or MADS -- provides debt service liquidity. All parity debt is scheduled to retire by 2027 and MADS occurs in 2020.

Outlook

The stable outlook reflects our anticipation of Hammond's continued pledged revenue growth and our view of Hammond's lack of plans to issue additional parity debt given the city's historical practice of using excess pledged revenue for operations, which should allow debt service coverage to remain stable. The city's overall economic profile precludes a higher rating. We do not anticipate changing the rating within our two-year outlook horizon given the above.

Related Criteria And Research

Related Criteria

USPF Criteria: Special Tax Bonds, June 13, 2007

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