

**RATING ACTION COMMENTARY**

# **Fitch Affirms South Jordan, UT's Sales Tax Revs and Refunding Bonds at 'AAA', Outlook Stable**

Mon 11 May, 2020 - 4:38 PM ET

Fitch Ratings - San Francisco - 11 May 2020: Fitch has affirmed the following ratings for South Jordan, UT:

--Issuer Default Rating (IDR) at 'AAA';

--Sales tax revenue bonds at 'AAA';

--Sales tax and tax increment revenue bonds (issued by the Redevelopment Agency of the City of South Jordan) at 'AAA';

--Lease revenue refunding bonds (issued by the South Jordan Municipal Building Authority) at 'AA+'.

The Rating Outlook is Stable.

## **SECURITY**

The sales tax revenue bonds are payable from a first lien on the local sales and use tax revenues levied at the maximum 1% rate, which are distributed by the state based on a combination of population and point-of-sale activity. The subordinate sales tax and tax increment revenue bonds are payable from a subordinate lien on the local sales and use tax revenues described above, as well as a portion of incremental tax revenues generated from the redevelopment project area, excluding a 20% housing allocation. The lease revenue bonds are payable from lease payments subject to annual appropriation by the city.

## **ANALYTICAL CONCLUSION**

The 'AAA' IDR incorporates the city's strong revenue framework and operating performance, low long-term liability burden, and solid expenditure framework. The 'AAA' on the sales and tax increment revenue bonds reflects the anticipated resilience of the pledged revenues in a stress scenario. The tax increment bond rating reflects a backup pledge of sales tax revenues that is subordinate to the city's sales tax revenue bonds but provides a very strong resilience. The 'AA+' lease revenue refunding bonds are one notch below the IDR, reflecting the slightly higher degree of optionality associated with lease payments subject to appropriation.

Economic Resource Base

The City of South Jordan covers 22.3 square miles of southwest Salt Lake County, 15 miles south of Salt Lake City. The fast growing city had a 2018 population of approximately 75,000, an increase of nearly 50% from 2010.

## **KEY RATING DRIVERS**

Revenue Framework: 'aaa'

Historical revenue growth has surpassed overall U.S. economic performance. Fitch expects ongoing revenue growth at a healthy pace after a period of weakness due to the current coronavirus outbreak based on continued above-average population growth and economic development. The city has independent legal ability to raise revenues substantially.

Expenditure Framework: 'aa'

Based on the city's current spending practices and recurring operating surpluses, Fitch expects the natural pace of expenditure growth to be below revenue growth. Expenditure flexibility is solid.

Long-Term Liability Burden: 'aaa'

Long-term liabilities for overall debt and pensions are low relative to the city's resource base. Fitch expects the burden to remain low given the city's strong use of pay-as-you-go capital plans and limited future debt plans.

Operating Performance: 'aaa'

Strong control over revenues and spending and solid reserve levels contribute to superior gap-closing ability for the city. The city is well positioned to maintain its high level of financial flexibility amidst COVID19 economic uncertainty.

Strong Dedicated Tax Fundamentals: The bonds are supported by a broad sales tax that provides robust debt service coverage even in the face of current economic disruptions and strong growth prospects for revenues. The rating is capped at the IDR.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Weakening in revenue growth to less than the rate of nominal U.S. GDP growth.

--A significant decline in overall financial performance, particularly if the current economic downturn proves more severe and protracted than Fitch currently expects.

--Sustained reductions in pledged revenues, additional leverage that dilutes the level of resilience, or a decline in the IDR could pressure the sales tax revenue bond ratings.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario

(defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CREDIT PROFILE**

### CURRENT DEVELOPMENTS

The recent outbreak of the coronavirus and related government containment measures worldwide creates an uncertain global environment for U.S. state and local governments and related entities in the near term. While the city's most recently available fiscal and economic data may not fully reflect impairment, material changes in revenues and expenditures are occurring across the country and are likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

The city of South Jordan is likely to face some revenue pressure due to declining economic activity in short to medium term, resulting in lower sales tax revenues, especially if this crisis is protracted. Fitch expects a recession of unprecedented depth in the post-World War II period and a 40% to 50% decline in U.S. retail discretionary spending in 1H20, a spike in unemployment and declining personal income as a result of the COVID-19 containment measures. The city, which relies on sales taxes for about 31% of general fund revenues, is well positioned to manage the current

revenue stress due to its strong reserves, strong margins coming into the downturn and superior inherent budget flexibility.

South Jordan's unrestricted fund balance equaled \$10.4 million, or 21.4% of spending in fiscal 2019. The city's available reserves also include about \$20 million in capital funds that could be used to support operations in an emergency. Management has identified budget adjustments that would maintain reserves at very strong levels through Fitch's baseline economic decline scenario. Though reserves could decline somewhat in a downside scenario with a severe and protracted decline in economic activity, Fitch believes the city would maintain (or quickly rebuild) reserves that are consistent with the current rating even in the downside scenario.

South Jordan's sales tax revenue bonds hold up well to Fitch's 34% retail stress scenario (based on expectations for national retail sales in 2020) with coverage remaining above 2.8x. The city also has a long-standing practice of maintaining enough funds to cover at least one year of debt service payments in its debt service fund, providing liquidity support in the event of an unexpectedly severed decline in sales taxes.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## **RATING ACTIONS**

ENTITY/DEBT	RATING		
South Jordan (UT) [General Government]	LT IDR	AAA	Affirmed
● South Jordan (UT) /Issuer Default Rating - General Government/1 LT	LT	AAA	Affirmed
● South Jordan (UT) /Lease Obligations -	LT	AA+	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 27 Mar 2020\)](#)  
(including rating assumption sensitivity)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 ([1](#))

## **ADDITIONAL DISCLOSURES**

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## **ENDORSEMENT STATUS**

Redevelopment Agency of the City of South Jordan (UT)	EU Endorsed
South Jordan (UT)	EU Endorsed
South Jordan Municipal Building Authority (UT)	EU Endorsed

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