S&P Global
Ratings

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Summary:
St. George, Utah; Sales Tax

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Summary:

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St George sales tax rev bnds		
Long Term Rating	AAA/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'AAA' from 'AA+' on St. George, Utah's outstanding series 2023 sales tax revenue bonds.
- The outlook is stable.
- The raised rating reflects our view of the city's stronger overall creditworthiness, driven by continued growth in its local taxing base, very strong general fund financial performance, and maintenance of its very strong general fund reserve and liquidity levels. Also, it is supported by the continued growth in sales tax revenues, which provide extremely strong debt service coverage levels on the series 2023 sales tax bonds.

Security

A first-lien pledge of a 1% local sales and use tax secures the city's series 2023 sales tax revenue bonds. The Utah State Tax Commission collects the 1% local sales and use tax and disburses the revenue monthly to the city. The disbursements are based on a formula: 50% of sales tax collections based on population and 50% based on point of sale. Bond provisions require that pledged revenue for any consecutive 12-month period in the 24 months immediately preceding the date of issuance provide 2.0x coverage of maximum annual debt service (MADS) on all bonds, including any additional planned debt. There is no reserve fund requirement.

Credit overview

The rating reflects the city's very strong local economy that has demonstrated continued population and economic growth. Overall sales tax revenue collections have experienced year-over-year growth, and consumer spending has remained resilient despite increased inflationary pressures. Notably, sales tax revenues did not decline during either the pandemic or the last three fiscal years. MADS coverage is very strong at 60.4x, based on audited fiscal 2023 pledged sales tax revenues. Based on year-to-date sales tax collections, management projects total pledged revenues will increase to $37 million, or by 2%, from the prior year, which would boost MADS coverage to 61.6x. With economic and pledged growth anticipated for the city, we believe that debt service coverage will remain very strong in the medium term.

The rating further reflects our view of:

- The city's very strong sales tax revenue economic fundamentals, with continued revenue growth in fiscal 2023 and projected growth for fiscal 2024, based on year-to-date sales tax collections;
- The city's additional bonds test (ABT) at 2.0x MADS and dependence on pledged revenue for general operations,

which reduces the likelihood that it will issue additional debt to the fullest extent of the ABT, combined with the city's lack of plans to issue additional sales tax revenue debt within the next three to five years;

- Audited 2023 pledged sales tax revenues that provide very strong 60.4x projected MADS coverage;
- Historically low volatility in the pledged sales taxes; and
- The close relationship between the priority-lien pledge and the obligor given the flow of funds that leads to a one-notch upward limitation compared with the city's general creditworthiness.

Environmental, social, and governance

We view the city's social, environmental, and governance factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our view of the city will continue to show consistent sales tax revenue growth during the next several years, and our expectation that expect coverage levels on the sales tax debt will remain very strong going forward.

Downside scenario

Should coverage levels fall substantially due to the issuance of additional parity sales and use tax debt or should pledged revenues fall due to a decline in the local economy, we could lower the rating. Additionally, should the city's general obligation creditworthiness deteriorate, we could lower the priority-lien rating.

Credit Opinion

Economic fundamentals: very strong

Given that half of the revenue is derived from the state as a whole and shared as a percentage of population, we use the state as the economic foundation for our analysis. The state's internal population growth has caused employers to expand or relocate to the Salt Lake metropolitan area to take advantage of a young, well-educated workforce and nearby universities with expertise in both high tech and biosciences. In 2021, Utah had the second-highest population growth rate in the nation at 1.9%, boosting its population to 3.34 million. Between 2010 and 2020, it had the highest population growth at 18.4%, which was more than double the national figure of 7.4% during the same time frame, according to the U.S. Census Bureau.

The city is located in Washington County, about 118 miles northeast of Las Vegas, and about 300 miles southwest of Salt Lake City. Although the city doesn't participate in a metropolitan statistical area that we consider broad and diverse, it serves as the regional economic hub for southern Utah and several economic development projects are in the construction phases within the city's boundaries. Current projects include Tech Ridge, Desert Color, Divario, New Intermountain Health Regional Hospital, St. George Musical Theatre, and BigShots Golf. There are also two large master-planned developments under construction, which will yield an additional 2,532 residential units. St. George is a popular retirement community and is also known for its outdoor recreation and access to several state parks, Zion National Park, and the Grand Canyon. The city is also home to Utah Tech University and Dixie Technical College and

Southern Utah University are within close proximity. We estimate that the city's population is 95,226 for 2021, although management report it estimates that its full-time-equivalent residents is approximately 105,000 as of 2022. Although the city's projected per capita effective buying income is adequate in our view, we believe income levels are likely understated due to the presence of Utah Tech University, with an estimated enrollment of 12,556 students, or approximately 13% of the city's 2021 population levels. The city's overall tax base has been growing at a strong pace in recent years, and taxable value rose by nearly 17% and 39% in fiscal years 2022 and 2023, respectively, to reach $17.9 billion.

Volatility: low

We assess the volatility of revenue to determine the likelihood of the availability of revenue during different economic cycles. We have two levels of volatility assessment: macro and micro.

The city pledges to maintain its full 1% tax rate on the pledged city local option sales tax. The sales tax is distributed to localities in Utah based 50% on point of sale and 50% on population. However, the state refigures the population part of the formula monthly, so a sudden one-time adjustment is unlikely and lower population share is offset to some degree if overall state sales tax receipts grow.

On a macro level, we consider sales tax revenue to have a low historical volatility assessment given that we expect the demand for goods and services taxed will remain relatively stable through various economic cycles. Nationwide sales taxes have historically remained relatively stable, with some significant periods of fluctuation, including the recession in 2009.

On a micro level, based on history of sales tax collections, collections have continued to grow throughout the pandemic, and we see no internal or external influences that we believe will improve or worsen the micro assessment of volatility as low.

Coverage and liquidity: very strong

Pledged revenue collections have grown very rapidly during the past three fiscal years, most recently increasing by 17.0% and 3.6%, respectively, in fiscal years 2022 and 2023. For fiscal 2024, management projects 2% pledged revenue growth. Audited 2023 sales tax revenue of $36.3 million provides a MADS coverage of 60.4x, a level we consider very strong. Sales and use tax revenues account for 61% of the city's general fund tax revenues, representing the city's largest revenue stream. The city uses excess revenues to fund its general fund operations, which we believe reduces the likelihood that it will issue additional debt to the fullest extent of the ABT. Additionally, the city anticipates continued pledged revenue growth going forward.

Obligor linkage: close

In our view, St. George does not benefit from limited operations or extraordinary expenditure flexibility, and we believe pledged revenue has some exposure to operating risk, leading to a one-notch upward limitation compared to the city's general creditworthiness. While pledged revenue is pledged to support debt service first, the flow of funds for the pledged revenue allows management to use excess revenue for operations, and we consider pledged revenue within the city's direct control and exposed to operating risk. Therefore, under our priority-lien criteria, we believe there is a close relationship between the priority-lien pledge and the obligor.

Rating linkage to St. George

We assess St. George's general operations because we view overall creditworthiness as a key determinant of an obligor's ability to pay all its obligations, including bonds secured by a special tax. We consider St. George's local economy to be strong based on income levels and its tax base. We note that the city's taxable value has been increasing steadily during the past few years and exhibited resiliency through economic pressure posed by COVID-19. The city has maintained positive operational performance within its general fund and maintains very strong reserve levels, in our view. The city expects continued positive performance, with further growth in both property tax and sales tax revenues. As a result, it expects to maintain very strong reserves and liquidity during the next several years.

St. George, Utah--key credit metrics

	Metric
Economic data	
Economy	Very strong
EBI level per capita % of U.S.	83
Population (obligor)	100,437
Broad and diverse MSA	Statewide
Population (MSA)	3,282,329
Financial data	
Revenue volatility	Low
Coverage and liquidity	Very strong
Baseline coverage assessment	ABT
MADS coverage (x)	60.4
MADS year	2034
Annual debt service coverage (x)	184.7
3-year pledged revenue change (%)	21.12
Bond provisions	
ABT (x)	2.0
ABT type	MADS
ABT period	Historical
DSRF type	None
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.

Related Research

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.