S&P Global Ratings

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Summary:

Herriman, Utah; General Obligation; Sales Tax

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Credit Profile		
US$16.41 mil sales and fran tax rev bnds dtd 04/24/2025 due 08/01/2045		
Long Term Rating	AA+/Stable	New
Herriman sales and franchise tax rev and rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Herriman sales and franchise tax rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Herriman sales & franchise tax (ASSURED GTY)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Herriman, Utah's anticipated $16.4 million series 2025 sales and franchise tax bonds.
- The outlook is stable.

Security

The bonds are secured by a pledge of revenue from a sales and use tax, energy franchise tax, and telecommunications franchise tax. The Utah State Tax Commission collects the 1% local sales and use tax and disburses the revenue monthly to the city. The amount of disbursements for the 1% local levy is based on a formula: 50% of sales tax collections based on population, and 50% based on point of sale. The telecommunications franchise tax, collected by the state and distributed monthly, is levied at 3.5% of telecommunications providers' gross receipts from telecommunication services, including landline and cellular telephones. The city collects an energy franchise tax at a rate of 6% on the delivered value of taxable gas and electric energy.

The bonds will finance the construction of a new public road and related improvements.

Credit overview

The rating reflects the city's robust economic development and population growth trends resulting in the continued increase of pledged revenues. Herriman is a high-growth community that is 25 miles south of Salt Lake City, spanning 22 square miles, and with an approximate population of 60,000 in 2025 that has more than doubled in the past decade. Likewise, pledged revenues grew 16% annually on average between 2020 and 2025. We expect continued population and taxbase growth given current and proposed housing and commercial development, including hundreds of acres of mixed-use, single family, and multifamily housing projects. In addition, the construction of Mountain View Corridor, expected to be a 35-mile north-south freeway from Herriman to Saratoga Springs, is scheduled to be complete in 2027, facilitating access to the city, which we anticipate will further stimulate development, commerce, and employment opportunities. We expect pledged revenues will remain strong as new commercial developments come online, including a new automall area expected to open within the year that includes auto dealers, hotel, and dining, among other commercial establishments. Following the issuance of the series 2025 sales and franchise tax revenue bonds, maximum annual debt service (MADS) coverage will be approximately 3.59x, which we consider very strong. Under the indenture, the city can issue additional parity debt, but management does not have immediate plans to issue additional parity debt in the near term. The city's parity debt outstanding includes its 2015B, 2015A, and 2021 bonds, which mature in 2034, 2036, and 2037, respectively. We think positive sales tax revenue trends combined with substantial economic development will keep fueling consumer spending and ensure financial stability that should support generally stable key credit factors in the near term.

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

- Strong economic base that is tied to both the Salt Lake City and Provo-Orem economic areas, with robust growth metrics that are expected to continue as well as the state-shared component of pledged revenue;
- Very strong coverage and liquidity assessment based on a 2.0x additional bonds test (ABT), with 2024 audited collections providing 5.1x annual debt service coverage in 2025. ABT at 2.0x MADS and dependence on pledged revenue for general operations, which reduces the likelihood that the city will issue additional debt to the fullest extent of the ABT;
- Low volatility of the pledged revenue stream given its historical performance through economic cycles, which increased at a compound annual growth rate of 15% since 2016; and
- Close linkage between the priority-lien rating and the city's general creditworthiness. The close linkage with Herriman's general creditworthiness does not constrain the credit factors of the pledged revenue structure.

Environmental, social, and governance

Harriman is exposed to certain physical risks--particularly earthquakes and flooding as well as natural capital risks stemming from long-term water supply challenges in the region due to the pervasive drought conditions in the western U.S. However, we recognize that the state's mitigation efforts, including funding in previous and future budgets and its commitment to planning for long-term water challenges, could offset these challenges. On the earthquake front, we think Utah has strong building codes for structures built after 1975 that help mitigate risk of material tax-base effects associated with seismic activity; Herriman incorporates earthquake prevention standards in all its new infrastructure. In addition, we understand that the city took measures to adopt water-efficiency standards and has conducted its own hazard-mitigation-and-scoping study. The city also works with the military on yearly grazing projects for wildfire prevention. We view social capital factors as credit supportive, as we think population growth will help moderate economic cyclicality of certain revenues. We view the city's governance factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our view of the bonds' very strong coverage supported by continued pledged revenue growth, strong legal provisions, as well as our expectation that the city's economic growth trend will continue to trend positively, supporting our expectation that coverage will remain very strong.

Downside scenario

We could lower the rating if we believe the city has entered a period of materially weaker MADS coverage due to additional debt or deterioration in pledged revenues. We could also lower the rating if our view of the city's general creditworthiness worsens.

Upside scenario

All else equal, we could raise the rating if the city's economy continues to grow, strengthening underlying economic metrics leading to improvements in key economic drivers affecting the pledged revenue stream. We could also raise the rating if the city maintains coverage at extraordinarily high levels on a sustained basis through economic cycles.

Herriman, Utah--Key credit metrics

	Metric
Economic data	
Economy	Strong
EBI level per capita % of U.S.	90
Population (obligor)	59,206
Population (MSA)	1,266,191
Financial data	
Revenue volatility	Low
Coverage and liquidity	Very strong
Baseline coverage assessment	ABT
MADS coverage (x)	3.59
MADS year	2027
Annual debt service coverage (x)	5.14
Bond provisions	
ABT (x)	2.00
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 might 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. N/A--Not available. Three-pronged test--MADS, 10% of principal, or 125% of average annual debt service.