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Ratings

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Summary:

Indianapolis Local Public Improvement Bond Bank Indianapolis; Appropriations; General Obligation; General Obligation Equivalent Security; Moral Obligation

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Summary:

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Credit Profile		
US$47.78 mil rfdg bnds (Indianapolis) ser 2016B due 02/01/2038		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Indianapolis Local Public Improvement Bond Bank, Ind.'s series 2016B refunding bonds, issued on behalf of the city of Indianapolis.

The rating is based on a pledge of special benefits ad valorem property taxes levied on all taxable property in the city's Redevelopment District, which is coterminous with the city. At the same time, we affirmed our 'AA' rating on existing ad valorem tax-secured debt issued by and on behalf of the city, as well as our 'AA-' rating on its lease-backed debt. The city's lease-backed debt is subject to annual appropriation, and we set this rating one notch below the general obligation (GO) equivalent ad valorem tax rating to reflect this risk. Also, we affirmed our 'A' rating on the city's moral obligation debt, reflecting the city's moral obligation pledge to replenish debt service reserve funds (DSRFs), if needed, subject to council appropriation of legally available revenues. The moral obligation rating is set three notches below the GO equivalent rating to reflect this risk. The outlook on all ratings is stable.

The city's ad valorem tax debt, including the bond bank's series 2016B bonds, is subject to Indiana's circuit-breaker legislation (which limits an individual taxpayer's tax liability to a specified percentage of their property's gross assessed value [AV]), though debt service is a statutorily protected levy, with any losses due to the circuit breaker required to be distributed, first, across nondebt service levies. We do not make a rating distinction due to this tax limitation.

Included in the affirmations is debt backed by Indianapolis plus the city's sanitary, flood control, metropolitan thoroughfare, and park districts. Each entity pledged ad valorem property taxes, subject to the circuit breaker, to its respectively loan. Each of these special districts is under financial oversight and control by the city, so they are evaluated based on the city's credit quality. As such, the rating on this debt is ultimately based on the credit quality of the city.

The city intends to fund debt service on the series 2016B bonds with the use of tax-increment revenues, though they are not formally pledged. Each fall, Indianapolis receives an estimation of tax-increment levies for the upcoming year,

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and to the extent that these revenues are anticipated to be sufficient to cover debt service, it will forgo the ad valorem levy. There is risk in doing so based on anticipated tax-increment revenues, but this is mitigated, in our view, by good coverage of tax-increment revenue relative to debt service, stable taxpayers in the tax-increment area, very strong citywide liquidity, and the DSRF. We understand the DSRF will be funded at the standard three-prong test (anticipated to be maximum annual debt service [MADS]) and with a surety policy furnished by Build America Mutual Assurance Co. The trust indenture requires replenishment of any draws on this policy.

The city originally issued its series 2008 bonds, used to fund improvements related to the new downtown J.W. Marriott hotel. The city's series 2008 bonds were purchased by the bond bank, through the bond bank's issuance of its series 2008A bonds. With the series 2016B bonds, the bond bank will refund its series 2008A bonds, and at the same time, purchase the city's series 2016A refunding bonds, which will refund the city's series 2008 bonds.

The 'AA' rating reflects our view of the following factors, including Indianapolis':

- Adequate economy, with projected per capita effective buying (EBI) income at 84.0% and market value per capita of $75,017, though that benefits from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 at 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 31.5% of total governmental fund expenditures and 1.8x governmental debt service, as well as access to external liquidity we consider exceptional, but an exposure to a non-remote contingent liability risk;
- Very weak debt and contingent liability position, with debt service carrying charges at 17.3% of expenditures and net direct debt at 151.4% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Indianapolis' economy adequate. The city, with an estimated population of 853,284, is in Marion County in the Indianapolis-Carmel-Anderson MSA, which we consider to be broad and diverse. It has a projected per capita EBI of 84.0% of the national level and per capita market value of $75,017. Overall, market value grew by 2.0% over the past year to $64.0 billion in 2017. The county unemployment rate was 5.0% in 2015.

Indianapolis is the state capital and, with its central location and extensive highway and rail access, it is the primary generator for much of the state's economy. The MSA is home to slightly over 1 million jobs, and has experienced strong 12% employment growth over the past five years. Marion County, which is slightly larger than the consolidated city, had 7% population growth over the past ten years, which is forecasted to slightly taper, but remain positive, over the next ten. Just over half of the labor force is in the services and trade industry, with another 13% in government, and less than 10% in manufacturing. While the population and job base is expanding, we do not anticipate incomes or market values rising at a pace that would lead to our economy score to improve in the near term.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The city has strong practices governing its revenue and expenditure assumptions used for budgeting. Revenue and expenditure budget-to-actual reports are provided monthly to the council, and the city controller has the ability to reduce appropriations during the year. Long-term financial forecasting is limited, and long-term capital planning practices are standard, with multiple plans for equipment and infrastructure needs but funding sources are not well outlined. The city has a formalized investment policy and some formal debt guidelines, but investment reporting to the counsel as a whole is only done once a year. There is also a formalized reserve policy that the city is in compliance with.

Adequate budgetary performance

Indianapolis' budgetary performance is adequate, in our opinion. It had slight surplus operating results in the general fund at 1.3% of expenditures, but a deficit result across all governmental funds at negative 1.6% in fiscal 2015.

Our general fund operating results combine the public safety income tax fund with the general fund, as this fund strictly collects income taxes and transfers them into the general fund. Also, both the general fund operating and total governmental funds results exclude one-time spending, mostly capital related and financed by both RebuildIndy reserves and bond proceeds.

Budgetary performance has been mixed in recent years, but improved slightly in fiscal 2015, which is due in part to an increase in the public safety income tax rate. For fiscal 2016, actual results are likely to show operating surpluses, but this is due to about $52 million in one-time distributions of income taxes from the state, which will not be recurring. Excluding this one-time revenue, management currently is estimating an operating budget gap of around $20 million, or about 4% of expenditures. The city historically ends up underspending its appropriations by a considerable amount, and management expects this trend to continue, and likely result in the budget gap being much less once the year reaches its conclusion. The largest components of governmental funds revenue are property (35%) and income (25%) taxes.

The city has relied on nonrecurring revenues in recent years to fund some of its operations. This preserved the very strong reserve position, but left a lingering budget gap that the city has been closing each year. Rising police and public safety costs have been a large pressure point, coinciding with a soft property tax climate (due to both circuit-breaker limitations and the lack of significant assessed value growth). Some of the cost-control measures the city is working on include revisions to pension contributions and health care plans, technology and department efficiencies, and staff control. Overall, we do not consider the recent budget gaps to be at a level that will cause significant pressure, and recognize the improvements being made.

Very strong budgetary flexibility

Indianapolis' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 at 26% of operating expenditures, or $159.0 million.

Our assessment of the available reserve position includes the assigned and unassigned general fund balance, but not reserves designated as committed, as these are remaining unspent RebuildIndy funds. The RebuildIndy fund was established, and marked as committed in the general fund, after the receipt of more than $200 million from the sale of the city's water utility and wastewater system in 2011. These reserves have since been spent down gradually each year (on capital and infrastructure projects), and will be depleted by the end of 2016.

The available reserve position remained mostly flat in 2015, after two years of declines amounting to $25.6 million. While budgetary performance remains mixed, it is likely reserves will grow in 2016 due to one-time income tax distributions. Modest fluctuation in the available reserves may persist as the city continues efforts to stabilize the budget, but we anticipate them remaining at a very strong level.

A few years ago, the city approved an ordinance calling for a minimum $80 million stabilization fund within the general fund, but more recently formally adopted a policy setting an unassigned fund balance floor of 10% of expenditures and an unrestricted fund balance floor (effectively, combined assigned and unassigned) of 17%. In our view, this is a stronger step toward protecting fund balances.

Very strong liquidity

In our opinion, Indianapolis' liquidity is very strong, with total government available cash at 31.5% of total governmental fund expenditures and 1.8x governmental debt service in 2015. In our view, the city has exceptional access to external liquidity if necessary. Weakening Indianapolis' liquidity position, in our assessment, is the city's exposure to nonremote contingent liabilities that could come due within 12 months.

We believe Indianapolis has exceptional access to external liquidity, considering its long record of issuing both short- and long-term debt secured by ad valorem property taxes, tax-increment revenues, and other sources. The city includes its moral obligation backing on a large portion of its debt, and pledged revenues continue to cover annual debt service without the need for additional support from operating funds. We do not consider the city engaging in any aggressive investments, rather, investments are mostly limited to government agencies.

The city has several direct bank loans outstanding. Two loans permit acceleration of debt service in the event of default, which could be triggered if pledged tax-increment revenues fall below 1.25x coverage (coverage is currently at 1.4x). There is another loan that has a tender feature, which the lender could exercise if tax-increment revenues from the project area securing the loan provide less than 1.25x coverage (current coverage is 2x). In our view, there is a possibility that these obligations could be accelerated, but the total par amount ($34.6 million) is relatively minor, and paying them from cash on hand would not affect the overall liquidity position.

Very weak debt and contingent liability profile

In our view, Indianapolis' debt and contingent liability profile is very weak. Total governmental fund debt service is 17.3% of total governmental fund expenditures, and net direct debt is 151.4% of total governmental fund revenue.

Management reports that the city may issue up $70 million in various tax-secured debt instruments within the next year, but considering that debt plans are minimal compared with scheduled debt maturity over the next two years, we do not anticipate the debt burden increasing. The city has no exposure to interest-rate risk.

Given the higher percentage of expenditures accounted for by annual debt service, which is not likely to lessen soon, we expect the debt profile to remain very weak.

Indianapolis' combined required pension and actual other postemployment benefit (OPEB) contributions totaled 5.2% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

Indianapolis makes annual contributions to the state-managed Indiana Public Employee Retirement Fund and 1977 Police Officers' and Firefighters' Pension and Disability Fund, both of which are multiemployer defined-benefit plans. The total contributions in 2015 were $41.6 million, and have grown about 7% per year since 2012. The city is undergoing modifications to its pension plans, which it anticipates will lessen its annual costs. The PERF and 1977 plan have funded levels at the state level of 77% and 95%, respectively.

Additionally, the city contributes $50 per month per active police and firefighter to a fund to support with retired police and firefighter health care costs. This amounted to $1.9 million in 2016. Civilian retirees can buy into the health care plan, but completely at their own cost. We do not consider this a significant liability.

Strong institutional framework

The institutional framework score for Indiana municipalities is strong.

Outlook

The stable outlook reflects our view of Indianapolis' very strong liquidity and flexibility, which we anticipate will remain very strong despite some of the budget challenges it faces. The very strong reserves, aided in part by one-time revenues in recent years, has afforded the city the ability to address budget pressures over time, rather than making sweeping cuts in bunches. The outlook also reflects our view of the strength of the city's position as the center to a broad and diverse MSA economy. Therefore, we do not anticipate changing the rating within our two-year outlook period.

Upside scenario

Rating improvement is likely contingent on improvements in some of the factors behind our management score, as well as by more consistently balanced budgetary performance over an extended period.

Downside scenario

If the city has mounting budget pressure that remains unaddressed and eventually leads to deterioration in the reserve position, we could lower the rating.

Related Research

- 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
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of September 22, 2016)

Ratings Detail (As Of September 22, 2016) (cont.)		
Indianapolis ICR		
Long Term Rating	AA/Stable	Affirmed
CAFCO- Indiana Leasing Trust, Indiana		
Indianapolis, Indiana		
CAFCO- Indiana Leasing Trust (Indianapolis) COPs		
Long Term Rating	AA-/Stable	Affirmed
Indianapolis San Dist, Indiana		
Indianapolis, Indiana		
Indianapolis San Dist (Indianapolis) state revolving fd		
Long Term Rating	A/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank, Indiana		
Indianapolis, Indiana		
Indianapolis Local Public Improvement Bond Bank (Indianapolis) (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Indianapolis Local Public Improvement Bond Bank (Indianapolis) (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bank (Indianapolis)		
Long Term Rating	AA/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bank (Indianapolis) moral oblig		
Long Term Rating	A/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bank (Indianapolis) GO		
Long Term Rating	AA/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bnk (PILOT infrastructure proj) (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) bnd bank rfdg bnds		
Long Term Rating	A/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) GO		
Long Term Rating	AA/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) MORALOBLIG		
Long Term Rating	A/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) MORALOBLIG		
Long Term Rating	A/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) MORALOBLIG		
Long Term Rating	A/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) MORALOBLIG		
Long Term Rating	A/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bank (Indianapolis) rfdg bnds		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bnk (Indianapolis)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.