FitchRatings

Fitch Rates Indy Local Pub Improv Bond Bank (Health & Hospital Corp), IN Rfdg Bonds 'AA+'

Fitch Ratings-New York-05 June 2015: Fitch Ratings assigns an 'AA+' rating to the following Indianapolis Local Public Improvement Bond Bank (Health and Hospital Corp. of Marion County), IN bonds:

--$16,750,000 refunding bonds, series 2015 B (the bonds).

The bonds are expected to be sold through negotiation the week of June 15.

The bond proceeds will be used to currently refund the bond bank's outstanding series 2005 D bonds for an estimated present value savings of $2.1 million with no extension of the final maturity date of 2025.

In addition, Fitch affirms the following ratings:

--Approximately $170 million unlimited tax general obligation bonds (ULTGOs), series 2010A-1 and 2010A-2 affirmed at 'AA+';
--Approximately $19 million general obligation bonds, series 2005D affirmed at 'AA+';
--Approximately $502 million lease revenue bonds, series 2013A, 2010B-1 and 2010B-2 affirmed at 'AA'.

The Rating Outlook is Stable.

SECURITY
The bonds are limited obligations of the Indianapolis Local Public Improvement Bond Bank which under Indiana law is empowered to buy and sell securities of 'qualified entities'. The bond bank itself has no taxing power.

Pursuant to Indiana Code, the Health and Hospital Corporation of Marion County (HHC) is a qualified entity that can issue 'qualified obligations' to be purchased by the bond bank. Each series of bonds are payable from the trust estates established under the bond bank indentures.

The bonds, are payable from the series 2005 HHC bonds and are payable from an

GO pledge of HHC, a component unit of the consolidated city of Indianapolis-Marion County.

The series 2010A-1 and series 2010A-2 bonds are payable from unlimited ad valorem taxes and have a cash-funded debt service reserve fund (DSRF).

The series 2010B-1, series 2010B-2 and series 2013A lease revenue bonds are payable from fixed rental payments (due 15 days prior to debt service payments) made by HHC through a master lease under which the authority is the lessor and HHC is the lessee. Lease payments are supported by an unlimited property tax pledge, not subject to the Circuit Breaker Tax Credit or annual appropriation. The lease payments are subject to abatement if the leased premises are not available for use. Abatement risk is offset by the requirement that the authority or HHC obtain property and casualty insurance in an amount equal to the greater of the cost of defeasing the then-outstanding series 2010B and 2013A bonds, or 100% of the replacement cost of the leased premises. Additionally, the authority or HHC must obtain rental interruption insurance equal to full rental value for 2 1/2 years.

The series 2010B-1, series 2010B-2 and series 2013A bonds are also payable from a common cash-funded DSRF.

KEY RATING DRIVERS

ESSENTIAL HEALTHCARE ROLE: As the only public hospital in Marion County, the Sidney and Lois Eskenazi Hospital fulfills an essential role in the service area, providing safety net healthcare services to Marion County's Medicaid and indigent population.

STRONG QUALITATIVE INDICATORS: Several of the hospital's qualitative measures (including quality, cost effectiveness of care, relationship to Indiana University School of Medicine) are positive credit factors.

WEAK HOSPITAL FINANCIAL OPERATIONS: Financial operations of the hospital are weak and leave the facility vulnerable to changes in state and federal funding given the large number of Medicaid, Medicare and indigent patients.

DIVERSE TAX BASE AND ECONOMY: The service area has a large and diverse tax and economic base and continues to experience growth through new commercial development.

STRONG SECURITY STRUCTURE: Debt service on the GO bonds is secured by an ad valorem tax pledge of HHC, a component unit of the consolidated City of Indianapolis-Marion County. Lease payments are supported by an unlimited property tax pledge, not subject to annual appropriation but subject to abatement.

RATING SENSITIVITIES

STRENGTH OF THE SERVICE AREA ECONOMY: The rating is sensitive to shifts in fundamental credit characteristics including the strong service area economy and tax base. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

HHC's taxing area is co-terminus with Marion County and slightly larger than Indianapolis (Fitch GO rating of 'AAA' with a Stable Outlook). The county is the most populous in the state with an estimated 2014 population of 934,243, a 3.4% increase from 2000. The city, the state capital, is the largest in the state.

SERVICES AND GOVERNANCE

HHC provides health services including preventive, acute care, and long-term care to county residents through three main departments: Eskenazi Health which operates the 327-bed Sidney and Lois Eskenazi Hospital; Marion County Public Health Department; and the Division of Long-Term Care which operates over 59 nursing home facilities. The hospital is Marion County's only public, general acute care facility, providing a majority of uncompensated care for the county.

HHC is governed by a seven-member Board, three of whom are appointed by the mayor of the city, two by the Board of Commissioners of the County, and two by the City-County Council. The Board levies its own taxes, adopts its own ordinances and issues its own general obligation bonds.

STRONG QUALITATIVE FACTORS BUT WEAK FINANCIAL OPERATIONS

The hospital's qualitative performance measures are strong, while weak financial operations reflect in part the very high 35% of revenues and 30% of total patient volume with no form of insurance or government subsidy.

Management's goal is to maintain break-even operations (after interfund transfers). However, the hospital generates substantial operating losses before transfers due to poor payor mix. Management has implemented various collection and pre-qualification programs to maximize revenue collection and is strategically focused on providing low-cost care. Despite these measures, Fitch expects operating performance to continue to be weak despite the above-mentioned modifications.

In 2013, the hospital incurred an operating loss of approximately $193 million, compared to a $118 million loss in 2012. These losses were offset by transfers in from the general fund of $153.5 million and $111.5 million in 2013 and 2012, respectively.

The general fund includes property and income tax support as well as intergovernmental payments. Audited results for 2013 (year-end Dec. 31) show the general fund recorded a $22.6 million surplus prior to transfers. After transfers out, including $153.5 million in support of the hospital as well as transfers in from the long-term care enterprise, the net deficit totalled $49.9 million compared to a net surplus of $94.7 million in 2012. The unrestricted general fund balance at Dec. 31, 2013 totalled $179.9 million or a strong 41.4% of general fund spending. When proprietary expenditures are added, the unrestricted balance drops to a still satisfactory 14.3%. On an unaudited basis, the general fund balance at Dec. 31, 2014 was $246.5 million compared to $180.3 million in the prior year.

MANAGEABLE LONG-TERM LIABILITIES

Overall debt levels are mixed with debt per capita moderate at $2,351 and debt-to-full value high at 5.8%. Debt levels should decline as there are no future borrowing plans and principal amortization is above-average.

Debt service on the bonds is payable from ad valorem property taxes via a dedicated debt service levy. While HHC is legally obligated to fund the annual debt service on the series 2013A, series 2010 B-1 and series 2010 B-2 bonds using a dedicated property tax if other revenues are not sufficient to fully pay the bonds in any given year, HHC currently funds 100% of debt service on these bonds through hospital operating revenues and plans to continue to do so. Property taxes represent approximately 5.2% of the general operating fund with MADS on all debt at a modest 3.5% of total HHC revenues (government and business type).

HHC contributes to the Indiana Public Employees Retirement Fund (PERF), a state-run, multi-employer defined benefit pension plan. As of June 30, 2014, PERF was

82.4% funded using a 6.75% return assumption. For 2013 the corporation's statutory contribution totalled $20.3 million, or 126% of the required amount. Carrying costs including debt service and pension costs were manageable at 14.8% of governmental funds spending.

DIVERSE ECONOMY AND TAX BASE

Indianapolis' economy is well diversified and includes pharmaceutical production, health services, life and sciences companies, manufacturing and other business and professional service companies. Major employers include Indiana University Health (20,292 employees), St. Vincent Hospitals and Health Services (11,075), Eli Lilly and Company (10,500) and Wal-Mart (9,000).

The city's unemployment rate has historically been above both state and national rates. For March 2015, the city's unemployment rate was 6.1%, compared to 5.9% and 5.6% for the state and U.S., respectively. This was an improvement from the March 2014 rate of 7.0%, as city employment growth outpaced the increase in the labor force. Per capita income levels in the city are comparable to the state average but below the U.S.

Taxable assessed value of the county has been fairly stable over the last few years, totalling $37.7 billion in 2014. The top ten taxpayers comprise a modest 8.6% of 2014 taxable value. Total property tax collections are strong, averaging over 100% for the last three years.

For information about Indianapolis' overall credit quality please see the Fitch release "Fitch Affirms Indianapolis Local Public Improvement Bond Bank, IN Bonds 'AAA'; Outlook Stable" dated Jan. 29, 2015, available at www.fitchratings.com.

Contact:

Primary Analyst
Karen Wagner
Director
+1-212-908-0230
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst

Michael Burger
Director
+1-415-659-5470

Committee Chairperson
Amy Laskey
Managing Director
+1-212-908-0568

Media Relations: Alyssa Castelli, New York, Tel: +1 (212) 908 0540, Email: alyssa.castelli@fitchratings.com; Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, CoreLogic Case-Shiller Index, IHS Global Insight, Zillow.com and, National Association of Realtors.

Applicable Criteria
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015&cft=0)
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314&cft=0)

Additional Disclosures
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=985973)
Endorsement Policy
(https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)

(http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Solicitation Status

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group’s websites. Learn more (https://www.thefitchgroup.com/site/policies).

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.