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Ratings

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Summary:

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

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Credit Profile		
US$29.47 mil bnds (Indianapolis) (16 Technical Project) ser 2019C due 02/01/2040		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Indianapolis Local Public Improvement Bond Bank's $30 million series 2019C bonds (16 Tech). The bond are being issued on behalf of the City of Indianapolis. The 'AA-' rating reflects the city's moral obligation pledge.

At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on all previously rated ad valorem property tax debt levied within the Indianapolis-Marion County consolidated city-county jurisdiction and affirmed its 'AA-' long-term rating on the previously rated obligations ultimately supported by the city's moral obligation pledge. The outlook on all ratings is stable.

Security

The 'AA-' rating on the 2019C bonds and 19 previously issued bonds is set two notches off of our 'AA+' general obligation (GO) rating on Indianapolis to reflect the city's pledge to appropriate funds to replenish the debt service reserve funds (DSRFs) on any deficiency. The combined DSRF is funded at maximum annual debt service for all parity debt.

The bond bank will use 2019C bond proceeds to purchase the city's series 2019A Economic Development Tax Increment Revenue bonds, which in turn will fund infrastructure developments at the 16 Tech innovation district. 16 Tech is a $500 million 10-year mixed-used development project, an approximately 50-acre area of repurposed urban real estate that is intended to facilitate the growth of life sciences, technology, and advanced engineering sectors in the Indianapolisdowntown region. The development will consist of 2 million square feet of office and lab space, multi-family housing, a hotel, restaurants, and retail establishments, surrounded by the green space. A new four-lane bridge will connect the tech park with Indiana University-Purdue University Indianapolis, the Indiana University School of Medicine, and hospital campuses. Officials estimate that the development will create more than 2,600 jobs over the first 10 years; construction began in 2018.

In addition to Indianapolis' moral obligation pledge, the bonds will be secured by a first-lien pledge on tax increment revenues (TIF) generated in the consolidated downtown TIF area. The city's total commitment to this project through

TIF/moral obligation financing is not expected to exceed $56 million. We think this obligation as well as the city's other moral obligation bonds serve an auxiliary function of the city, which indicates a moderate relationship between the city and the projects that were financed. In our opinion, all moral obligations are equally important to the city/bond bank and the city/bond bank would not likely differentiate one from another in case of debt service deficiency.

We believe the potential contingent liabilities and timing risks related to these obligations are sufficiently addressed. The trust estate established under each bond bank indenture secures each bond. If a deficit or depletion in the DSRF is projected in the annual budget, the chairperson of the bond bank is required under the trust indenture to make and deliver to the city-county council a certificate stating the sum required to restore the reserve fund to the reserve requirement. This must occur before Dec. 1, of the year before the year when the deficit is projected, or within 90 days of such projection, whichever is earlier. In addition, the bond bank also covenants to take all actions required or permitted by the Indiana code to certify to the city-county council any deficiency or depletion in the DSRF within 90 days regardless of whether deficiency or depletion was projected. We believe the intended payment sources is weak because the city's only intention is to satisfy DSRF deficiencies (as opposed to budgeting for payments annually from operations).

We view political and administrative risks related to the Indianapolis moral obligation program as minimal. The city adopted an ordinance indicating its general intention to consider such appropriations, if necessary, though it has never been called upon to do so. Simultaneously, we recognize that the city has a strong track record of supporting these programs going back to at least 1992.

The 'AA+' rating takes into consideration operations of significant, essential Unigov component units, and we base the rating on certain ad valorem tax-backed debt issued by such units, including HHC, on the 'AA+' city rating. This approach of linking these ratings to the city takes into account the shared tax base and tax levy, the breadth and essentiality of the government services, and oversight by the city-county council and mayor. The ad valorem property tax pledge is subject to state circuit-breaker legislation, which caps the property tax burden for taxpayers based on a percent of the real estate parcels' gross assessed value. This can, and often does, reduce the total tax levy. The levy to cover debt service, however, is statutorily protected, allowing the city to distribute circuit-breaker losses first across nondebt service funds that receive property taxes. We rate the debt that is subject to the circuit breaker at the same level as our view of the city's general creditworthiness.

The 'AA+' rating reflects the following characteristics:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 28% of operating expenditures;
- Very strong liquidity, with total government available cash at 28.1% of total governmental fund expenditures and

1.7x governmental debt service, and access to external liquidity we consider exceptional;

- Very weak debt and contingent liability profile, with debt service carrying charges at 16.2% of expenditures and net direct debt that is 130% of total governmental fund revenue; and
- Strong institutional framework score.

Economy

We consider Indianapolis' economy adequate. The capital city, with an estimated population of 860,258, is located in Marion County in the broad and diverse Indianapolis-Carmel-Anderson MSA. The city has a projected per capita effective buying income of 77% of the national level and per capita market value of $81,117.

Indianapolis is the state capital and a primary economic center for the entire state. The city's solid economic growth over the past several years resulted in some improvements in Indianapolis' key economic metrics. This is a function of above-average fundamental characteristics, including modestly growing population, a slightly younger and more educated workforce, lower cost of living compared with the national average and, most important, Indianapolis ' fruitful and persistent efforts to modernize and diversify the city's employment base. These efforts are paying off--the growth in the advanced manufacturing, life sciences, and logistics sectors is spurring a variety of developments. In 2018 alone, Indianapolis has capitalized on $2.4 billion in new investments; 10,000 new jobs were created with an average wage of $31 an hour. The city's tax base has advanced 10% to $41.5 billion in 2019 from $37.7 billion in 2014; the rate of job creation in the city is slightly above the U.S. average.

The city continues to grow and diversify at a faster rate than many other Midwestern counterparts while remaining relatively affordable, although its income and wealth levels are still somewhat behind those of similar size counterparts across the nation. While the population and job base are expanding, it could be somewhat difficult to radically improve wealth and income levels of local residents due to the city's larger geographic footprint, and competition from its suburban cities and other up-and-coming cities in the county and in the world.

Very strong management

We consider Indianapolis' financial management assessment as very strong indicating that financial practices are strong, well embedded, and likely sustainable.

Highlights include:

- The city uses comprehensive data when it forms its budgets; budget-to-actual reports are provided to the city-council members on a monthly basis.
- Indianapolis follows a multiyear forward-looking approach to control the budget, with the goal to hold the line on spending and to protect fund balances. The city controller has developed a five-year financial plan focusing on available funds over the next five years. The plan provides projections of major revenue sources and makes various assumptions for major expenditures such as personnel costs, contractual obligations, and capital needs. The plan is reviewed and updated regularly.
- Further guiding budgeting decisions are rolling individual long-term capital plans for the city's most capital-intensive departments. The plans identify various equipment and infrastructure needs, but do not fully outline funding sources for each project.

- The Indianapolis Bond Bank follows a comprehensive debt management policy as well as swap and derivative policies.
- Indianapolis observes its investment management policy and reports investment holdings and performance to the council annually.
- The city complies with its reserve policy that sets a floor for an unassigned fund balance, at 10% of total general fund expenditures and at 17% for an unrestricted fund balance (effectively, combined assigned and unassigned). Management believes that these levels allow for the most effective management of city's cash flows.

Strong budgetary performance

Indianapolis budgetary performance is strong, and we expect it to remain so in the near future. In the past, the city's budgetary performance was mixed and somewhat negative--rising police and public safety costs have been a large pressure point, coinciding with a soft property tax climate. The city has occasionally relied on nonrecurring revenues to fund its operations. In 2016, the new administration made structural balance one of its key priorities. Management adopted a multiyear approach to control the budget with the goal of holding the line on spending, and "smart-sizing" the budget by finding efficiencies and modernizing systems and business processes. The city's revenue environment has gotten increasingly better as well, due in part to an increase in the public safety income tax rate in 2015 and an improving economy. Indianapolis collected a record $563 million in total tax dollars in 2017; tax revenues were even higher in 2018.

All the above-mentioned improvements allowed the city to turn around its financial situation. Its general fund budget reported surpluses for three consecutive years, and total governmental fund results were generally positive. Based on the most recently available audited information (Dec. 31, 2017), Indianapolis had surplus operating results in the general fund of 4% of expenditures, and slight surplus results across all governmental funds of 0.5% in fiscal 2017 after S&P Global Ratings' adjustments.

Looking ahead, we think that the city's very high public safety costs as a percentage of the budget, and aging infrastructure, will remain the highest cost drivers and potential pressure points. Public safety costs accounted for a staggering 72% of general fund spending in 2017; total costs will keep going up though the percentage share of costs is expected to decline slightly with the projected growth in revenue. This dependency leaves fewer operating resources for infrastructure improvements, aspirational programs, and employee compensation, and forces the city to increase its financial leverage.

We think Indianapolis' budgetary situation is currently under control--the city's administration is committed to keeping budgetary balance and has identified and made plans to address near-term and long-term budgetary pressures such as high public safety costs and aging infrastructure. Higher public safety costs were built into the 2018 and 2019 budgets and the city is planning to address its infrastructure needs through a new 2019-2022 $405 million transportation plan. Indianapolis is in the process of developing a new criminal justice campus;

the city issued $610 million in early 2019 to build a jail, courthouse, and treatment center. The project aims to cut crime and recidivism by tackling the "underlying cause" and by moving away from the private prison concept.

While not under current consideration, the city also has flexibility to significantly increase income tax revenue if necessary. In the near team, management intends to maintain positive momentum and expects to conclude both 2018 and 2019 with positive financial results.

Very strong budgetary flexibility

Indianapolis' budgetary flexibility is very strong, in our view, with an available fund balance (including assigned and unassigned portions of the general fund balance) in fiscal 2017 of 28% of operating expenditures, or $177.5 million. The city now has $10 million more in available reserves compared to what it had five years ago. Because of the budget growth, however, the total available fund balance as a percent of expenditures remains relatively constant--at 27%-28%.

We anticipate that the city's financial flexibility will remain very strong, based on the expectation of strong budgetary performance in 2018 and 2019. In the long term, available reserves could continue to fluctuate slightly, but we anticipate the overall unrestricted reserves will remain above the 17% of total general expenditures as dictated by the policy.

Very strong liquidity

In our opinion, Indianapolis' liquidity is very strong, with total government available cash at 28.1% of total governmental fund expenditures and 1.7x governmental debt service in 2017. In our view, the city has exceptional access to external liquidity if necessary.

The city has four direct bank loans outstanding in the amount of nearly $28 million. One loan permits acceleration of debt service in the event of default, which could be triggered if pledged tax-increment revenues from the project area securing the loan fall below 1.25x coverage. 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. In our view, there is a possibility that these obligations could be accelerated, but the total par amount is small, and paying them from cash on hand would not affect the city's 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 16.2% of total governmental fund expenditures, and net direct debt is 130% of total governmental fund revenue.

The city's direct debt burden is approximately $1.2 billion. A significant portion of Indianapolis' direct debt is paid through tax increment revenues, local income tax revenues, and other pledged revenues, without the need for additional support from operating funds. The Unigov's units' overall debt and the debt of overlapping entities continue to grow and are now approaching $2.6 billion. The total debt per capita (each resident's share of the combined debt burden) is now about $4,500; although still moderate, this share has more than doubled over the past four years following several major bond issuances. Officials are contemplating other smaller bond issuances but do not have any plans for any major bond issuances at present. We anticipate that operating costs associated with the higher debt service costs will be factored into the budgetary planning, although it is possible that increased leverage could present new budgetary challenges.

Well-funded pensions and limited other postemployment benefit obligations are positive credit factors that set Indianapolis apart from its nationwide peers as discussed in our analysis, "Pension Costs Will Remain High For Largest

U.S. Cities, As Revised Liability Measures Place Upward Pressure On Contributions," published Sept. 5, 2018.

Indianapolis contributes to two retirement plans administered by the state: Indiana Public Employees' Retirement Fund (PERF) and the 1977 Police Officers' and Firefighters' Retirement Fund ('77 Fund). These plans are cost-sharing, multiple-employer, defined-benefit plans (the plans share all risks and costs, including benefit costs, proportionately by the participating employers). Certain employees are also covered by legacy police and firefighter retirement plans (1925 Police Pension, 1937 Police Pension, and 1953 Pension Funds). While these plans' liabilities belong to the local entities, the state has assumed 100% of the cost and has historically funded the benefits on a pay-as-you-go basis through its pension relief fund. Given the state's commitment to funding these costs, we do not consider them a liability of the local entities.

The city continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was equal to 7.2% of total governmental funds' expenditures. As of June 30, 2018, the PERF was 79% funded and the '77 Fund was 102% funded, in accordance with Governmental Accounting Standards Board Nos. 67 and 68. We view the plans' actuarial assumptions, including the assumed rate of return of 6.75%, as generally reasonable because they are slightly more conservative than the national average. Considering the plans' strong funded ratios, reasonable actuarial assumptions, and low historical contribution requirements for plan participants, we do not expect Indianapolis' required pension costs to increase significantly in the medium term.

In addition, the city contributes $50 per month per active police and firefighter to a fund to support with retired police and firefighter health care costs (about 0.3% of operating expenditures in 2017). Civilian retirees can buy into the city's health care plan at their own cost. Since these contributions are part of the four-year contracts and can potentially be eliminated after the contract expires, we do not consider the city's OPEB liability to be significant.

Strong institutional framework

The institutional framework score for Indiana municipalities is strong.

Outlook

The stable outlook reflects our view that the city's improved economic environment will continue to support strong budgetary performance resulting in at least very strong budgetary flexibility. Additionally, it reflects our expectation that the city's active financial management framework will offer continued guidance and support through economic cycles; therefore, we do not expect to change the rating within our two-year outlook period.

The stable outlook on the moral obligation and 2019C bonds is equivalent to the outlook on the Indianapolis GO rating, and moves in tandem with the city's GO outlook.

Downside scenario

We think that Indianapolis' very high public safety costs as a percentage of the budget and aging infrastructure will remain the highest cost drivers and potential pressure points in the future. The city's overall debt continues to increase and has more than doubled on a per capita basis since 2014. All of the above could pose novel budgetary challenges for Indianapolis, especially if there is an economic slowdown that persists. We could lower the rating if existing and new challenges prove more problematic than we anticipate and the city's budgetary performance worsens as a result.

Upside scenario

Although unlikely, if Indianapolis' debt moderates and the city continues to maintain structurally balanced operations, we could consider a higher rating. An upgrade is also likely contingent on strong improvements in resident incomes to a level commensurate with those of higher-rated peers.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of June 26, 2019)		
Indianapolis ICR		
Long Term Rating	AA+/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank, Indiana		
Indianapolis, Indiana		
Indianapolis Local Public Improvement Bond Bank (Indianapolis) (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Indianapolis Local Public Improvement Bond Bank (Indianapolis) (AGM)		
Unenhanced Rating	AA-(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	AA-/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	AA-(SPUR)/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) bnd bank rfdg bnds		
Long Term Rating	AA-/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) MORALOBLIG		
Long Term Rating	AA-/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) MORALOBLIG		
Long Term Rating	AA-/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) MORALOBLIG		
Long Term Rating	AA-/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) MORALOBLIG		
Long Term Rating	AA-/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bnk (Indianapolis)		

Ratings Detail (As Of June 26, 2019) (cont.)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank, Indiana		
Marion Cnty Hlth & Hosp Corp, Indiana		
Indianapolis Local Pub Imp Bnd Bnk (Marion County Health & Hospital Corporation) lse		
Long Term Rating	AA+/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bnk (Marion County Health & Hospital Corporation) GO		
Long Term Rating	AA+/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank GO		
Long Term Rating	AA+/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Marion Cnty Hlth & Hosp Corp) US$195.mil GO bnds (Marion Cnty Hlth & Hosp Corp) dtd 02/17/2010 ser 2010 A-1 d		
Long Term Rating	AA+/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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.