FITCH RATES INDIANAPOLIS LOCAL PIB BANK, IN'S $70MM AD VALOREM TAX BONDS, SER 2017 A AND B 'AAA'

Fitch Ratings-New York-18 January 2017: Fitch Ratings has assigned a 'AAA' rating to the following Indianapolis Local Public Improvement Bond Bank, IN bonds:

--$58 million series 2017A bonds (ad valorem property tax funded projects);
--$11.99 million series 2017B bonds (taxable) (ad valorem property tax funded projects).

The bonds are scheduled for sale via negotiation on Jan. 25, 2017, and proceeds will be used to fund various essential capital improvement projects for the respective qualified taxing districts including the consolidated city, and three special taxing districts coterminous with the boundaries of Marion County (consolidated county) including the park district, metropolitan thoroughfare district, and public safety communications districts.

The Rating Outlook is Stable.

SECURITY

The series 2017 A and B bonds are limited obligations of the Indianapolis Local Public Improvement Bond Bank (the bond bank), which under Indiana law is empowered to buy and sell securities of qualified entities including the City of Indianapolis (the city), Marion County, all special taxing districts in the city, and all entities with tax levies reviewed by the city-county council of Indianapolis and Marion County (the city-county council). The bond bank itself has no taxing power.

The ad valorem property tax bonds are payable from a special ad valorem tax levied by the city-county council on all taxable property in the consolidated city of Indianapolis and three special taxing districts (the districts) that are coterminous with the consolidated county.

KEY RATING DRIVERS

The city's 'AAA' Issuer-Default Rating (IDR) and ad valorem tax bond rating reflects its substantial independent revenue-raising ability, solid expenditure flexibility, low long-term liability burden, and very strong financial resilience.

Economic Resource Base
Indianapolis is the largest city in the state of Indiana, with a diverse economy bolstered by its role as the state capital. The current population of 862,781 reflects a 5% increase since the 2010 Census. Employment has grown each year since 2011 (including 3% and 2.7% growth in 2014 and 2015, respectively, well above the U.S. national average). Wealth and unemployment rates are on par with the state and just below national averages.

Revenue Framework: 'aaa' factor assessment
Revenue growth is expected to remain above the rate of inflation, as it has historically, based on ongoing improvement in the local economy. The city has significant ability to increase local option income taxes to ensure ongoing fiscal stability.

Expenditure Framework: 'aa' factor assessment

Fitch believes that the city's natural rate of expenditure growth will be above revenue growth. The city has solid capacity to cut spending if necessary, due to moderate carrying costs for debt service and pension obligations and a labor environment that provides flexibility to management.

Long-Term Liability Burden: 'aaa' factor assessment
The city's long-term liability burden including pension liabilities and overall debt is low relative to personal income.

Operating Performance: 'aaa' factor assessment
The city has exceptionally strong gap-closing capacity and solid general fund reserves to manage through a moderate economic downturn. Fitch expects the city to maintain financial resilience through downturns.

RATING SENSITIVITIES

The 'AAA' rating is sensitive to the city's strong willingness to maintain financial flexibility but sharp declines in reserves could potentially pressure the current rating.

CREDIT PROFILE

The regional economy benefits from its size and diversity. The city is home to numerous industries including pharmaceuticals, health services, logistics, manufacturing and other professional services. Major taxpayers include Eli Lilly and Company, Federal Express, and American United Life Insurance Company. The largest employers, St Vincent Hospital and Health Services and Indiana University Health, employ approximately 17,398 and 11,810, respectively.

The city's taxable assessed valuation has been relatively flat since 2008, but the region had a large uptick in residential building permits issued in 2015. The city's long-term economic planning efforts should provide an intermediate-term boost to the tax base and the employment rolls. In 2015, Rolls Royce announced plans to invest $400 million over five years to upgrade its Indianapolis operations, which is expected to spur economic activity and create additional aerospace jobs.

Revenue Framework
The majority of the city's general fund revenues are derived from local sources including property and income taxes, which account for 62% of total general fund revenue combined. Fees and charges for services comprise about 12%, followed by intergovernmental revenue.

Fitch believes that natural revenue growth will continue to perform above the rate of inflation, as it has historically from 2005 through 2014. The 2008 housing market downturn and resulting limited growth in taxable assessed values (TAV) coupled with the implementation of a state tax cap led to flat property tax levies. The 'circuit breaker' tax cap limits property tax rates to a percentage of gross assessed value depending on the property classification. The rate for homestead property rates are capped at 1%, the rate for residential properties that are not homesteads, agricultural property or nursing homes is capped at 2% and commercial, industrial, and personal property rates are capped at 3%. All residential properties account for 43% of 2015 total TAV and commercial, industrial and personal properties account for 54% of TAV.

Recent income tax revenue improvements reflect economic growth attributable to upticks in employment and personal income. Income taxes increased by 25% in 2015 partially driven by rate increases; however the county attributes 7.1% of the overall increase to natural growth. Fitch anticipates natural revenue growth will continue to be solid based on the trend of improved income tax collections, steady population growth and ongoing economic development.

Fitch views the city's ability to independently increase revenue as significant. The city has the option to increase local option income tax rates to a maximum rate of 2.75% from the current 1.72%. Local option income tax increases can be imposed by County Income Tax Council (CITC), on which the city-county council has over 90% of the voting representation.

Expenditure Framework

The largest portion of the city' general fund expenditures are dedicated to public safety including criminal justice, police and fire service. The remaining expenditures are for public works, culture and recreation and capital expenditures.

Fitch expects expenditure growth to exceed expected revenue growth absent policy action. The city's growth in expenditures is largely driven by employee salary and benefit costs, which account for 60% of general fund expenditures. The average increase in employee salaries and benefits has grown at a pace well above inflation, and Fitch expects this to continue.

Flexibility of main expenditure items is solid given the city's ability to control expenditure growth under the current labor environment. Management is implementing an initiative to curtail personnel costs and reduce the size of the workforce mainly through employee attrition. Unions are not subject to binding arbitration and management has strong control over staffing levels. By state statute, the City Controller has the flexibility to reduce an agency budget if revenues are less than budgeted expenditures but rarely needs to use this power.

Carrying costs for debt service, annual pension costs and other post-employment benefits (OPEB) contributions account for 22% of governmental expenditures. Since 2009, the state has reimbursed the city for the annual pension payments for the Pre-1977 police and fire pension plans. After adjusting for the state reimbursement, carrying cost are 17% of governmental expenditures. Capital projects funded within the general fund provide additional expenditure flexibility because the city can delay projects for budgetary relief, as was done during the recession. In 2015, the city used $58 million or 9% of general fund expenditures on capital projects.

Long-Term Liability Burden

The city's long-term liabilities are low with the combined net pension liability and overall debt at about 6% of personal income. The majority of the long-term liability burden is direct debt, which is expected to remain low because the city has limited future borrowing plans.

The city participates in four separate pension plans: two pre-1997 Police and Firefighter pension plans, the 1997 Police and Firefighters Statutory plan (Statutory) for employees hired after April 1977 and the Indiana Public Employees Retirement Fund (PERF) which covers all other employees. After January 1, 2017, all new employees will only be eligible to participate in the PERF defined contribution plan. The Statutory and PERF pension plans' net assets to accrued actuarial liabilities ratios were 103.6% and 77.35%, respectively, using the plans' 6.75% rate of return on assets as of June 30, 2015.

Beginning in 2009, the state began reimbursing the city's annual pension contributions for its pre-1977 plan to help offset the future liability. Despite this reimbursement, the Pre-1977 pension plans' net pension liabilities are reported on the city's statement of net assets and included in Fitch's long-term liability burden assessment. The total net assets to accrued actuarial liabilities ratio for all four plans combined was approximately 57.8% as of June 30, 2015.

The net other post-employment benefits (OPEB) liability as of Dec. 31, 2015 was a modest $166 million or 0.4% of personal income. The city funds OPEB on a pay-as-you-go basis.

Operating Performance

Fitch believes that the city's financial resilience is strong given ample available general fund reserves, solid ability to independently increase revenues and solid expenditure flexibility. In 2011, the city's general fund balance increased significantly after the sale of the water utility. As a result, the city transferred $80 million to a fiscal stability fund in support of general fund operations. In June 2016, the city passed an ordinance to maintain the available general fund balance at 17% of general fund expenditures. General fund reserves have historically exceeded the 17% target despite the use of reserves for capital expenditures. Fitch anticipates that based on the exceptionally strong gap closing ability and moderate revenue volatility the city will maintain reserve levels above the 'aaa' reserve safety margin in a moderate stress scenario.

The city has made consistent efforts to maintain healthy financial operations. For example, management increased local income taxes to offset property tax losses in the city's operating funds. Additionally, the city has implemented several efficiency initiatives including outsourcing services, renegotiating existing service contracts and eliminating positions through attrition. Available general fund balance in 2015 was $168 million, 25.9% of general fund expenditures, well above the 17% available fund balance policy target and a level Fitch believes is consistent with the current rating. Based on projected 2016 results, the city anticipates ending the year with an available general fund balance of approximately 26% of spending. The 2017 budget assumes 2.9% in total revenue growth, controls expenditure through multiple efficiency initiatives and minimizes the use of general fund balance. Fitch expects the city's financial operations to remain strong given the city's strong inherent budgetary flexibility, ample available reserves and formalized fund balance policy.

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Date of Relevant Rating Committee: September 16, 2016

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

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478