S&P Global
Ratings

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Summary:

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

Primary Credit Analyst:
Anna Uboytseva, Chicago + 1 (312) 233 7067; anna.uboytseva@spglobal.com

Secondary Contact:
John Sauter, Chicago + 1 (312) 233 7027; john.sauter@spglobal.com

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Credit Profile		
US$65.79 mil bank qualified midwestern disaster area rfdg bnds (Indianapolis) (Cityway 1 Proj) ser 2021B due 02/01/2036		
Long Term Rating	AA-/Stable	New
US$7.53 mil bank qualified midwestern disaster area taxable rfdg bnds (Indianapolis) (Cityway 1 Proj) ser 2021C		
Long Term Rating	AA-/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to the Indianapolis Local Public Improvement Bond Bank's $72.955 million series 2021B and series C bonds. 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.

The 'AA-' rating on the 2021B and C bonds and previously rated moral obligation 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.

The bond bank will use bond proceeds to current-refund qualified midwestern disaster area bonds series 2011A to secure upfront cash flow savings and provide temporary payment relief for the developer. In addition to Indianapolis' moral obligation pledge, the bonds will be secured by a second lien pledge on tax increment financing (TIF) revenues generated in the consolidated downtown TIF area and by payments (primary source of debt repayment) due under a loan agreement between the developer and the city.

We think this obligation, as well as Indianapolis' other moral obligation bonds, serves 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 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 a 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 on 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 the Health and Hospital Corp. of Marion County, on the 'AA+' city rating. This approach of linking these ratings to Indianapolis considers 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 bonds secured by the city's or units' ad valorem property tax pledge are subject to state circuit-breaker tax caps, which cap the property tax burden for taxpayers based on a percent of the real estate parcels' gross assessed value. We rate the bonds at the same level as our view of the city's general creditworthiness, reflecting our view that all resources will be used to service the debt and there are no significant limitations on the fungibility of resources.

Credit overview

The 'AA+' long-term rating reflects our view of Indianapolis' status as the state capital and prime economic center for Indiana, supported by development across a variety of industries. Indiana's efforts to diversify the state's traditionally manufacturing-based economy are paying off and population growth, while minimal, is still relatively stronger than that of neighboring states. In our opinion, Indiana's relatively low cost of living and business-friendly legislation and regulatory practices continue to make the state an attractive target for firms looking to expand and relocate their operations. Although Indianapolis is growing faster than some other Midwestern counterparts, citywide wealth and income indicators still lag those of similar-sized metropolitan areas across the nation. We expect this will continue, especially factoring in Indianapolis' larger geographic footprint and competition for high paying jobs from surrounding suburban areas and other up-and-coming cities in the U.S.

In recent years, the city has maintained a solid financial position thanks to leaders' deliberate focus on maintaining surplus budgets and very strong reserves above the targeted levels. Officials responded quickly at the onset of the COVID-19 pandemic by proactively managing costs and maximizing emergency support. Indianapolis added to reserves in fiscal 2020 and expects to end 2021 with positive operating results. Unless there is a third or subsequent waves of the pandemic, we do not expect the city's finances or economy to deteriorate--the city has already recovered over 80% of jobs lost during the first wave of the pandemic. For more information see "Staying Home For The Holidays," published Dec. 2, 2020, on RatingsDirect.

The stable outlook on the moral obligation and the 2021B and C bonds is equivalent to the outlook on the Indianapolis GO rating and moves in tandem with the city GO outlook.

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 operating results that we expect could improve in the near term relative to fiscal 2019, which closed with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 45.8% of total governmental fund expenditures and 2.0x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability profile, with debt service carrying charges at 22.6% of expenditures and net direct debt that is 120.1% of total governmental fund revenue, but rapid amortization, with 69.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score

Environmental, social, and governance factors

Our rating incorporates our view of the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the city's social risks to be in line with those of other midsize cities. We believe Indianapolis has taken adequate steps to manage responses to weather-related risks such as flooding, and we view its environmental risks as in line with those of the sector. The city is taking steps to mitigate exposure to cybersecurity risks.

Stable Outlook

Downside scenario

We think that Indianapolis' 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. Growing leverage could pose novel budgetary challenges for Indianapolis, especially if the current economic slowdown persists. We could lower the rating if these challenges prove more problematic than we anticipate in our base-case scenario and if 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 improvements in resident incomes to a level commensurate with those of higher-rated peers.

Credit Opinion

Adequate economy

We consider Indianapolis's economy adequate. The consolidated government, with an estimated population of 869,922, is in a broad and diverse Marion County in the Indianapolis-Carmel-Anderson MSA. The consolidated government has a projected per capita effective buying income of 80.5% of the national level and per capita market value of $83,456.

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 young and educated workforce, lower cost of living compared with the national average and, most important, Indianapolis ' leaders 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 2020 alone, despite the pandemic, Indianapolis has capitalized on $1.4 billion in new investments; close to 10,000 jobs were created and retained.

Local employment base demonstrated relative resiliency to the crisis--over 80% of the jobs lost since the onset of the pandemic in April 2020 were recovered. County unemployment peaked at 14.2% April 2020, improving gradually to just 5.1% in December 2020.

In general, we note that Indianapolis continues to grow and diversify at a faster rate than many other Midwestern counterparts while remaining relatively affordable. The city's income and wealth levels, however, 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 residents' wealth and income levels due to the city's larger geographic footprint, and competition from its suburban cities and other up-and-coming cities in the U.S.

Very strong management

We view the consolidated government's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include:

- Indianapolis uses comprehensive data when it forms its budgets; budget-to-actual reports are provided to the city-council members monthly.
- The city 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 (transportation and stormwater). 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 in our opinion. The consolidated government reported a general fund surplus of 0.6% of expenditures, and balanced results across all governmental funds of 0.3% in fiscal 2019 after adjusting for spending of the bond proceeds.

The city's financial position has improved significantly after the then new administration made structural balances one of its key priorities in 2016. 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 a booming economy.

The above-mentioned improvements allowed the city to turn around its financial situation. Its general fund budget reported surpluses for three out of four years, and total governmental fund results were generally positive. While 2020 audit is still under development, we understand that the city ended fiscal 2020 (Dec. 31) with an estimated $17.7 million general fund surplus that amounts to about 2.4% of the general fund budget. Final 2021 budget calls for a general fund surplus of $11.8 million or 1.7% of projected expenditures. The city's biggest revenue sources, property taxes (48%) and income taxes (45%) are forecast to hold steady, at least until 2022. Even through the latest budget assumes no growth in income tax revenues, actual income tax collections could exceed expectations given the recovery rate.

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 biggest cost drivers and potential pressure points. Public safety budget accounted for 64% of general fund spending in 2019. This dependency leaves fewer operating resources for infrastructure improvements, aspirational programs, and employee compensation, and forces the city to increase its financial leverage. City leaders have identified and made plans to address these near-term and long-term budgetary pressures. Public safety costs are being supported by ongoing revenues and federal stimulus funding. Indianapolis is in the process of implementing its $405 million transportation plan and building a new criminal justice campus. While not under current consideration, the city also has flexibility to significantly increase income tax revenue if necessary.

Very strong budgetary flexibility

Indianapolis' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 25% of operating expenditures, or $190.5 million.

We anticipate that the city's financial flexibility will remain very strong (over 15%), based on the expectation of strong budgetary performance in 2020 and 2021. Officials indicated that they could use $30 million of previously accumulated reserves to support important infrastructure initiatives. We anticipate the overall unrestricted reserves will remain above the 17% of total general expenditures as dictated by the city's policy.

Very strong liquidity

In our opinion, Indianapolis' liquidity is very strong, with total government available cash at 44.9% of total governmental fund expenditures and 2.0x governmental debt service in 2019. In our view, the consolidated government has exceptional access to external liquidity if necessary.

The city has several direct purchase obligations--some of them permit acceleration of debt service in case on noncompliance with covenants and nonstandard events of default. In our view, there is a possibility that these obligations could be accelerated, but the city current has enough liquidity to make such payments.

Weak debt and contingent liability profile

In our view, Indianapolis' debt and contingent liability profile is weak. Total governmental fund debt service is 22.6% of total governmental fund expenditures, and net direct debt is 120.1% of total governmental fund revenue. Approximately 69.5% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

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. Although the Unigov units' overall debt and the debt of overlapping entities is relatively high on a nominal basis, the amount remains moderate on a per capita basis. 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 looking to issue $120 million-150 million for an expansion of its convention center, $20 million to fund additional infrastructure at 16 Tech facilities in a near future. 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.

Pension and other postemployment benefits liability profile

- We do not view pension liabilities as an immediate source of credit pressure for Indianapolis, given that costs account for a low portion of total spending and our view of the plans' adequate-to-strong funded levels;
- There is a moderate risk of cost escalation, but we would not expect it to pressure the budget;
- The city's long-term other postemployment benefits (OPEB) are limited.

The city participated in the following plans as of June 30, 2019:

- Indiana Public Employees' Retirement Fund (PERF): 80.1% funded.
- Indiana 1977 Police Officers' and Firefighters' Retirement Fund ('77 fund), 100% funded (proportionate shares for neither plan are disclosed).

The city's combined required pension contributions to PERF, '77 fund, and OPEB totaled 3.8% of total governmental fund expenditures in 2019. In the most recent year, there was funding progress for both state pension plans with contributions to PERF and '77 fund that were in excess of our minimum and status funding progress metric. There is an actuarial plan in place for both plans to reach full funding and consistent contributions are expected due to the level-dollar amortization basis. The plans are scheduled to be fully funded within 25 and 30 years for PERF and '77 fund, respectively, which is riskier than S&P Global Ratings' guideline of 20 years to effectively pay down unfunded liabilities. With a discount rate of 6.75% for both, we believe that during times of market volatility, there is modest risk of cost escalation. A discount rate higher than our 6.0% guideline could lead to contribution volatility that could stress the city's budget.

In addition, the city contributes $50 per month per active police and firefighter to a support 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.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 22, 2021)		
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		

Ratings Detail (As Of March 22, 2021) (cont.)		
Long Term Rating	AA+/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bnk (PILOT infrastructure proj) (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bnk (Indianapolis) moral oblig (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) bnds (16 Technical Project)		
Long Term Rating	AA-/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
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.