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Summary:

Indianapolis Local Public Improvement Bond Bank
Marion County Capital Improvement Board; Miscellaneous Tax

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Indianapolis Local Pub Imp Bnd Bank (Marion Cnty Cap Imp Brd)		
Long Term Rating	AA/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on the Indianapolis Local Public Improvement Bond Bank, Ind.'s series 2011D, 2011I, and 2012B bonds (senior obligations) to 'AA' from 'AA-'. The outlook is stable. The rating improvement reflects strong revenue performance, which continues to support very strong debt service coverage (DSC).

At the same time, we affirmed our 'A' rating on the bond bank's series 2007C and 2011K bonds (subordinate obligations). The outlook is stable.

The bond bank's series 2011D, 2011I, and 2012B bonds were issued to purchase Marion County Convention and Recreation Facilities Authority's (MCCRFA) series 2011A, 2011B, and 2012A bonds, respectively. The bond bank's series 2011k bonds were issued to purchase the MCCRFA's series 2011A and 1999A bonds. Payments on the various MCCRFA bonds secure the bond bank bonds. The MCCRFA bonds are secured by lease payments (not subject to annual appropriation) made by the Marion County Capital Improvement Board (MCCIB), as lessee. Lease payments are secured by a mix of hotel/motel taxes, food and beverage taxes, and other excise taxes generally levied across Marion County. The bond bank's series 2007C bonds are payable from a contractual undertaking with the MCCIB.

Both the 'AA' and 'A' ratings reflect:

- A very deep and diverse tax base; and
- Generally growing revenues over the last 10 years.

The 'AA' rating also reflects:

- Very strong coverage of maximum annual debt service (MADS); and
- A closed senior lien on pledged revenues.

The 'A' rating reflects:

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- Adequate MADS coverage; and
- An adequate additional bonds test (ABT).

An offsetting factor for both ratings is the inherently volatile nature of the various pledged revenues, which are prone to economic sensitivity. However, revenues have performed well since the Great Recession, and only saw a modest decline during that time, a sign of resiliency.

The senior obligations are ultimately secured by the following revenues, each of which last through debt maturity:

- A 5% county innkeeper's tax;
- A 1% county innkeeper's tax;
- A 1% county food and beverage tax;
- A 5% county admissions tax;
- A 2% county auto rental excise tax; and
- A portion of state cigarette tax revenues, totaling $350,000 annually.

The series 2011K bonds are ultimately secured by a subordinate pledge of each of the above revenues except for the 1% innkeeper's tax (which is not pledged to any subordinate obligations). The MCCRFA's series 2011A bonds, which are part of the security for the bond bank's series 2011K bonds, also carry a senior pledge of revenues from a designated professional sports development area (PSDA). However, given that this pledge does not apply to the entirety of series 2011K debt service (it is not pledged to the MCCRFA series 1999A bonds), we are not factoring this revenue into our analysis.

The series 2007C obligations are also ultimately secured by a subordinate pledge of each of the above revenues except for the 1% innkeeper's tax. The 1% food and beverage, 5% county admissions, and 2% auto rental excise tax pledges for the series 2007C obligations only run through calendar year-end 2027. These bonds mature in 2035, yet we do not view these expirations as significant, given debt service dramatically declines in unison with the pledge expirations. PSDA revenues are not pledged to the series 2007C bonds.

The MCCIB operates the Indiana Convention Center; Lucas Oil Stadium, home of the Indianapolis Colts, a National Football League (NFL) football franchise; Victory Field, home of the Indianapolis Indians, a minor league baseball team; and Bankers Life Fieldhouse, home of the Indiana Pacers, a National Basketball Association franchise. Outside of debt service, the various pledged revenues are dedicated to operations of these various facilities.

Total pledged revenues for the senior obligations have performed well. Since a total 10% decline across 2008 and 2009, revenues increased 33.5% to $60.67 million in 2014. This growth includes a larger 13.4% increase in 2012, attributed to the city of Indianapolis hosting the 2012 NFL Super Bowl. Though it budgeted for a 3.4% decline in 2015, management anticipates closer to a 2% increase, and believes a 2% annual increase over the next several years is likely. In our view, based on historical trends plus ongoing economic development, small annual growth is not an overly optimistic expectation. Pledged 2014 revenues covered senior-lien MADS by a very strong 4.56x. MADS ($12.85 million) occurs this year, and beginning in 2016, will fall to $11.9 million (5.07x coverage using 2014 revenues) and then remain steady through 2021, when it drops again.

Pledged revenues for the subordinate obligations (not including PSDA revenues) were $55.8 million for 2014. This covered combined senior and subordinate MADS ($36.1 million) by an adequate 1.55x. Combined annual debt service is steady, ranging from $33 million to $36 million through 2027. Holding all revenues flat, the remaining pledged revenues for the series 2007C bonds in 2028 would be $29.7 million, against annual debt service ranging from $6 million to $6.4 million. The two innkeeper's taxes accounted for 48% of pledged revenue, followed by food and beverage taxes at 37%, and admissions taxes at 11%.

The senior-lien revenue pledge is closed, which we consider a strength. To issue additional debt in parity with the subordinate lien, total revenues (as measured by taking any 12 consecutive months of the past 18 months) must provide at least 1.25x coverage of the new MADS. We consider this ABT adequate. Management indicates there are no plans to issue additional debt. Also, we consider future debt unlikely (at least until a substantial amount of debt rolls off), given the need for revenues to support the board's limited-purpose operations.

The only debt with a debt service reserve fund is the series 2007C obligations.

There is also unrated debt with a junior subordinate lien (effectively, third lien) on the same revenues pledged to the subordinate obligations. These obligations were sold as direct purchases. Given the junior subordinate nature, and a lack of acceleration provisions, we do not view these as posing additional risks. This debt is not included in the above coverage calculations.

Marion County is anchored by Indianapolis, which has a broad and diverse economy. With its central location and extensive highway and rail access, it also is the primary generator for much of the state's economy. The city is part of the Indianapolis-Carmel-Anderson metropolitan area, home to almost 1 million jobs, with 2% employment growth over the past five years. Marion County's population is estimated at 920,350 and its income levels are adequate, with both median household and per capita effective buying incomes at 76% of the national levels. The county's 2014 unemployment rate of 6.5% was marginally higher than the state's (6.0%) and nation's (6.2%) rates. In 2013, the county recorded more than 2.1 million total attendees at over 409 events, including sporting and entertainment events, conventions, and trade shows. This figure is growing annually, from 1.5 million in 2004. Given the depth of the tax base securing the various pledged revenues, we do not consider there to be concentration risk.

Outlook

The stable outlook on the 'AA' rating reflects our expectation that pledged revenues will continue to provide very strong coverage of senior-lien debt service. The closed lien and very strong underlying economy support this expectation.

We do not anticipate rating improvement within the two-year outlook period given the nature of pledged revenues, which are prone to economic volatility. On the other hand, if pledged revenues sustained a prolonged decline, lowering coverage to strong (or lower) levels, we could consider a lower rating.

The stable outlook on the 'A' rating reflects our expectations that pledged revenues will continue to provide at least adequate coverage of combined senior- and subordinate-lien debt service through the two-year outlook period. Significant improvement in coverage (to levels we consider good to strong) that we consider sustainable, could lead to rating improvement. At the same time, declining coverage, whether due to revenue declines or additional debt, could lead to a lower rating.

Marion County Capital Improvement Board

The MCCIB is a municipal body of Marion County created pursuant to the provisions of Indiana Code 36-10-9. Six of the nine board members are appointed by the mayor of Indianapolis, while the Marion County Board of Commissioners appoints one, the city-county council of the consolidated city of Indianapolis-Marion County appoints one, and the participating counties (other than Marion County) levying the regional food and beverage tax jointly appoints one. The board is authorized by the statute to finance, construct, equip, operate, and maintain any capital facilities or improvements of general public benefit or welfare that would tend to promote convention, cultural, entertainment, and recreational activities, thereby positively affecting the wider public and civic well-being of the community. The board operates facilities used in cultural, entertainment, recreational, and convention activities in downtown Indianapolis.

Pledged revenues

Marion County innkeeper's tax.

Since 1997, a 6% Marion County innkeeper's tax has been levied on every person engaged in the business of renting or furnishing, for periods of less than 30 days, any lodgings in any hotel, motel, inn, tourist camp, tourist cabin, or any other place in which lodgings are regularly furnished for a consideration. In accordance with IC 6-9-8 (as amended), one-sixth of the innkeeper's tax is to be used solely to fund lease rental payments (senior or subordinate) or other obligations related to convention center expansion projects. Innkeeper's tax revenues have grown at an average annual rate of 4.4% since 2005 and provided 48% of pledged revenues in 2014.

Marion County food and beverage tax.

Since 1981, a 1% Marion County food and beverage tax has been imposed on the gross retail income received by a retail merchant from any transaction within Marion County in which food or beverages are furnished, prepared or served. Food and beverage tax revenues have grown at an average annual rate of 3.2% since 2005 and comprise of 36.6% of revenues in 2014.

Marion County admissions tax.

Since 1997, a 5% Marion County admissions tax has been imposed on each person who pays a price of admission to certain events held in a facility financed in whole or in part by bonds or notes issued under various statutes. The tax equals 5% of the price of admissions to such an event and is paid with the price of admission. Generally, events sponsored by educational, religious, political, and charitable organizations are exempt. Admissions tax revenues have grown at an average annual rate of 2.9% since 2005 and are 10.7% of revenues in 2014.

Marion County supplemental auto rental excise tax.

Since 1997, a 2% Marion County supplemental auto rental excise tax (the original Marion County supplemental auto rental excise tax) has been imposed under IC 6-6-9.7 on the rental of certain passenger motor vehicles and trucks at a rate equal to 2% of the gross retail income received by a retail merchant for the rental. Supplemental auto rental excise tax revenues have grown at an average annual rate of 2.9% since 2005 and comprises of 3.8% of revenues in 2014.

Indiana cigarette tax.

IC 6-7 provides that the board will receive $350,000 annually from receipts of the Indiana cigarette tax. This tax is levied on each person who first sells, uses, consumes, handles, or distributes cigarettes. The rate of tax depends on the weight of the cigarettes and also applies to all cigarette papers, wrappers, or tubes made or prepared for the purpose of making cigarettes to be sold, exchanged, bartered, given away, or otherwise disposed of within Indiana. These revenues are 0.6% of pledged revenues in 2014.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007

Ratings Detail (As Of June 8, 2015)		
The Indianapolis Local Pub Imp Bnd Bank, Indiana		
Marion Cnty Cap Imp Brd, Indiana		
Indianapolis Local Pub Imp Bnd Bank (Marion Cnty Cap Imp Brd)		
Long Term Rating	A/Stable	Affirmed
Indianapolis Local Pub Imp Bond Bank (Marion Cnty Cap Imp Brd) (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bnk (Marion Cnty Cap Imp Brd) (Indianapolis Colts, Inc. Project)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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