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Summary:

**Indianapolis Local Public
Improvement Bond Bank, Indiana
Indianapolis; Appropriations; General
Obligation; General Obligation
Equivalent Security; Moral Obligation**

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Summary:

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Credit Profile		
US\$10.27 mil bnds (Indianapolis) (Fort Harrison Reuse Auth Proj) ser 2015C due 02/01/2035		
Long Term Rating	A/Stable	New
US\$7.67 mil rfdg bnds (Indianapolis) (Fort Harrison Reuse Auth Proj) ser 2015D due 08/01/2027		
Long Term Rating	A/Stable	New
Indianapolis ICR		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A' long-term rating to the Indianapolis Local Public Improvement Bond Bank, Ind.'s series 2015C and 2015D bonds. The outlook is stable.

The 'A' rating reflects Indianapolis' moral obligation pledge to replenish the debt service reserve (DSR) funds, if needed, associated with the two bond series. The moral obligation rating reflects the city of Indianapolis' credit characteristics ('AA' issuer credit rating, or ICR) and the risk of nonappropriation by the city-county council.

At the same time, we affirmed the 'AA' ICR and 'AA' rating on the city's GO and ad valorem property tax-backed debt, the 'AA-' rating on existing certificates of participation (COPs), and the 'A' rating on existing moral obligation-backed debt. The outlook on all ratings is stable.

The 'AA' ratings are based on ad valorem property tax pledges, subject to state circuit-breaker legislation. The 'AA-' rating on the COPs reflects annual appropriation risk, and the 'A' rating on the moral obligation debt is based on the city's moral obligation pledge to replenish DSRs, if needed, subject to council appropriation.

The DSR requirement for the series 2015C and 2015D bonds as required by the bond indenture will be set at maximum annual debt service. A common DSR for both series will be funded at closing.

According to the trust indenture, if a deficit or depletion in the reserve fund is projected in the bond bank's 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 with the projected deficit. In addition, the bond bank must also take all

actions required or permitted by the Indiana code to certify to the city-county council any deficiency or depletion in the reserve fund within 90 days regardless if such deficiency or depletion was projected. The city-county council may appropriate to the bond bank a sum necessary to restore the reserve fund. The city adopted an ordinance indicating its general intention to consider such appropriations, if necessary.

The bond bank will use series 2015C bond proceeds to purchase the city of Lawrence's series 2015A Fort Harrison Reuse Authority/Fort Harrison Military Base Reuse District tax increment revenue bonds, and to fund the DSR. The city of Lawrence, in turn will use some of the proceeds from the 2015A underlying bonds to refund its series 2000 variable-rate demand revenue bonds and the remaining \$6 million to finance improvements in the Fort Harrison Military Base Reuse District.

The bond bank will use series 2015D bond proceeds to refund its series 2006H bonds through the purchase Lawrence's series 2015B Fort Harrison Reuse Authority/Fort Harrison Military Base Reuse District tax increment revenue refunding bonds, and to fund the DSR.

The underlying bonds securing the bond bank's series 2015C and 2015D bonds are special obligations payable solely from tax increment revenues.

GO credit factors

The 'AA' ICR and GO debt rating reflect our assessment of the following factors for the city:

- Adequate economy, with projected per capita effective buying income at 74.1% and market value per capita of \$72,596, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies;
- Weak budgetary performance, with an operating deficit in the general fund and a slight operating deficit at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2013 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash of 21.6% of total governmental fund expenditures and 125.4% of governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges of 17.3% and net direct debt that is 152.4% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Indianapolis' economy adequate. Indianapolis, with an estimated population of 853,000, is located in Marion County in the Indianapolis-Carmel-Anderson MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 74.1% of the U.S. level and per capita market value of \$72,596. Overall, the city's market value grew by 1.4% over the past year to \$61.9 billion in 2015. The county unemployment rate was 6.5% in 2014.

With its central location and extensive highway and rail access, Indianapolis is the primary driver for much of the state's economy. Trade and transportation, professional and business services, and education and health services account for about half of the labor force, while manufacturing represents less than 10%.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The city has formal debt and investment policies. Revenue and expenditure budget reports are provided to the council monthly, and the city controller has the ability to reduce appropriations during the year. The city has a long-term capital improvement plan that is updated annually. Management does not consistently engage in long-term financial forecasting. Investment portfolio information is formally presented to the countywide board of finance only once a year. Although the city has a stabilization fund ordinance calling for the maintenance of \$80 million in the fiscal stability account, the parameters outlined by the ordinance are, in our view, weak.

Weak budgetary performance

Indianapolis' budgetary performance is weak in our opinion, with deficit operating results in the general fund of \$23 million, or 4.1% of expenditures, and a slight deficit across all governmental funds of 1.3% in fiscal 2013.

The general fund and total governmental funds results for fiscal 2013 were net of RebuildIndy-related expenditures and nonrecurring transfers. The fiscal 2013 budget gaps were carried into fiscal 2014, with budgeted general fund and total governmental funds operating deficits of \$36 million and \$33 million, respectively. Management reports that the fiscal 2014 general fund shortfall was about \$34 million after transfers. Pressure points for the budget include increased circuit-breaker losses (the result of increased tax levies by overlapping entities), continued stagnation in income taxes, and rising personnel and police department expenditures. The city structured its 2015 general fund budget with the use of \$26.3 million of reserves. Property taxes are the largest source of revenue for total governmental funds (38%), followed by income taxes (21%).

Very strong budgetary flexibility

Indianapolis' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2013 of 30% of operating expenditures, or \$168.1 million.

Although there was a draw on available reserves for fiscal 2013 and shortfalls projected for 2014 and 2015, we expect budgetary flexibility to remain very strong. Our assessment of the available reserves includes the unassigned and assigned general fund balance plus reserves attributed to an increase in the public safety local option income tax. Our assessment of operating expenditures includes both of these funds' expenditures with the exception of approximately \$67 million in capital and infrastructure spending out of the RebuildIndy subaccount (designated as committed in the general fund). The city established the RebuildIndy subaccount in fiscal 2011 following the sale of its water utility and wastewater collection and treatment facilities to Citizen Energy Group (CEG). After termination payments and accounting adjustments, the city netted over \$200 million in cash from the sale, while also writing off over \$1.47 billion in related debt acquired by CEG. The RebuildIndy subaccount (\$70.2 million at the end of fiscal 2013) is being spent down and will continue to be spent down over the next few years to fund capital and infrastructure improvements. The city also passed an ordinance after the utility sale calling for the maintenance of an \$80 million stabilization account in its general fund (designated as unassigned).

The draw on available reserves for fiscal 2013 and the shortfall projected for 2014 are attributed to a combination of

weaker revenues and increased costs, including police department, health insurance, and retirement costs. In our view, the city has not made sweeping cuts in recent years as all departments have been asked only to trim small percentages off their budget. As such, the city has some capacity, in our view, to cut spending if needed. Revenue-raising flexibility is limited, however.

Very strong liquidity

In our opinion, Indianapolis' liquidity is very strong, with total government available cash of 21.6% of total governmental fund expenditures and 125.4% governmental debt service in 2013. In our view, the city has exceptional access to external liquidity if necessary.

Total government available cash amounted to \$162.5 million at the end of 2013. We believe Indianapolis has exceptional access to external liquidity, considering its long record of issuing both short- and long-term debt secured by ad valorem property taxes, tax-increment revenues, and other sources. The city includes its moral obligation backing on a large portion of its debt, and pledged revenues continue to cover annual debt service without the need for additional support from operating funds. There is no existing debt with permissive covenants or provisions that we expect may pressure liquidity. We expect the liquidity score to remain very strong.

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 17.3% of total governmental fund expenditures, and net direct debt is 152.4% of total governmental fund revenue. Overall net debt is moderate at 4.5% of market value.

Management reports that the city may issue \$35 million of gasoline tax revenue bonds in the near future. Considering debt plans are minimal compared with scheduled debt maturity over the next two years, and based on market value, we do not expect the debt to market value ratio to change significantly in the near term. The city has no exposure to interest-rate risk, following the maturing of \$11.2 million of variable-rate debt in August 2014. There are no direct bank loans with provisions that present significant risks for liquidity and debt service expenditures.

Indianapolis' combined pension and other postemployment benefits (OPEB) contributions totaled 5.2% of total governmental fund expenditures in 2013. The city made its full annual required pension contribution in 2013.

Indianapolis makes annual contributions to the state-managed Indiana Public Employee Retirement Fund and 1977 Police Officers' and Firefighters' Pension and Disability Fund. The city's contributions to these funds in fiscal 2013 were equal to state requirements and amounted to \$37.4 million, or 5% of adjusted total governmental funds' expenditures. Additionally, the city pays each retired police and firefighter union member \$50 per month in health care costs. This amounted to \$1.6 million in fiscal 2013. Management does not anticipate significant increases in annual pension and retiree health care costs in the near future.

Strong institutional framework

The institutional framework score for Indiana municipalities is strong.

Outlook

The stable outlook on the 2015C and 2015D bonds is based on our ICR outlook on the city. Specifically, it reflects our view of Indianapolis' very strong budgetary flexibility and liquidity and the strength of the city's broad and diverse economy, neither of which we anticipate will waver within the two-year outlook period. Rating improvement is likely contingent on an improved management score and a more-balanced budgetary performance in the near term (compared to projections), particularly given that we do not anticipate the debt and contingent liability or economy assessments to improve in the near term. Should the management and budgetary performance assessments improve, a higher rating could be attained.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of June 9, 2015)

CAFCO- Indiana Leasing Trust, Indiana

Indianapolis, Indiana

CAFCO- Indiana Leasing Trust (Indianapolis) COPs

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Indianapolis San Dist, Indiana

Indianapolis, Indiana

Indianapolis San Dist (Indianapolis) state revolving fd

<i>Long Term Rating</i>	A/Stable	Affirmed
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The Indianapolis Local Pub Imp Bnd Bank, Indiana

Indianapolis, Indiana

Indianapolis Local Public Improvement Bond Bank (Indianapolis) (AGM)

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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Indianapolis Local Public Improvement Bond Bank (Indianapolis) (AGM)

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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Indianapolis Local Pub Imp Bnd Bank (Indianapolis)

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Indianapolis Local Pub Imp Bnd Bank (Indianapolis) moral oblig

Ratings Detail (As Of June 9, 2015) (cont.)		
Long Term Rating	A/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bank (Indianapolis) moral oblig (National)		
Unenhanced Rating	A(SPUR)/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	A(SPUR)/Stable	Affirmed
Indianapolis Local Pub Imp Bnd Bnk (Indianapolis) moral oblig (AMBAC)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) bnd bank rfdg bnds		
Long Term Rating	A/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) bond bank bnds (Indianapolis) ser 2014A due 02/01/2031		
Long Term Rating	A/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) multipurp rfdg bnds (Indianapolis) ser 2013C dtd 07/31/2013 due 01/10/2014-2018		
Long Term Rating	AA/Stable	Affirmed
The Indianapolis Local Pub Imp Bnd Bank (Indianapolis) taxable bond bank bnds (Indianapolis) ser 2014B due 02/01/2024		
Long Term Rating	A/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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