Rating Action: Moody's assigns Aa1 to Indianapolis Local Public Improvement Bond Bank's (IN) lease bonds; outlook stable

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New York, March 06, 2019 -- Moody's Investors Service assigns a Aa1 rating to the $610 million Community Justice Campus Bonds, Series 2019A (Courthouse and Jail Project) and $12.6 million Community Justice Campus Bonds, Series 2019B (Assessment and Intervention Center Project). The bonds are issued by the Indianapolis Local Public Improvement Bond Bank and are ultimately secured by lease payments made by Indianapolis-Marion County (the city). Concurrently, Moody's has affirmed the city's Aaa issuer rating. The outlook is stable.

The issuer rating represents Moody's assessment of hypothetical debt of the city supported by a general obligation unlimited tax (GOULT) pledge.

RATING RATIONALE

The Aaa issuer rating reflects the city's growing tax base, diverse economy, and role as the Indiana (Aaa stable) state capital. Additional positive credit attributes include a low cost of living relative to other urban centers and affordable pension obligations. The city's resident income indices lag those of comparably rated credits, its debt burden is somewhat elevated and its ability to raise operating revenue is subject to legal limitations. However, its growing tax base and strong financial position help to mitigate these challenges.

The Aa1 rating on the Series 2019A Bonds is notched once off of the city's issuer rating due to abatement risk if the facilities cannot be occupied. The Aa1 rating also reflects the essential nature of the financed project, a jail and courthouse. The rating further incorporates the underlying credit characteristics of the city, strong legal provisions that include several reserves for lease payments, a lockbox structure, and the strength of local income taxes, which the city pledges for the lease payments.

The Aa1 rating on the 2019B Bonds is notched once off of the city's issuer rating due to abatement risk if the facilities cannot be occupied. The Aa1 rating also reflects the essential nature of the financed project, an assessment and intervention center. The rating also incorporates the underlying credit characteristics of the city and strong legal provisions. The city does not pledge local income taxes for the lease payments, but instead pledges its limited tax general obligation pledge. While not legally pledged, additional liquidity is also available to make lease payments within the Community Justice Campus and Lifecycle Reserve Fund, subject to appropriation by City Council.

RATING OUTLOOK

The stable outlook reflects our expectation for continued growth in tax base valuation and the maintenance of ample operating reserves. The strengths should continue to offset credit challenges, positioning the city's ratings in their current categories for the foreseeable future.

FACTORS THAT COULD LEAD TO AN UPGRADE

- The elimination of abatement risk (for the Series 2019A and Series 2019B bonds)

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Material declines in tax base valuation or resident income indices
- Declines in operating fund balance or net cash
- Fluctuations or disruptions in the receipt of property tax or income tax revenue
- Increases in the debt burden or fixed costs associated with debt service or pensions

LEGAL SECURITY
The city’s 2019A Bonds are ultimately secured by lease rental payments, which are subject to abatement if the facilities cannot be used. The city has pledged local income tax revenue to fund the lease payments. The income taxes are comprised of distributive shares of public safety and certified share components of local income tax revenue that are imposed on state adjusted gross income of local taxpayers.

The city’s 2019B Bonds are ultimately secured by lease rental payments, which are subject to abatement if the facilities cannot be used. Lease payments are a first budget obligation of property tax revenue. The city’s property tax levy authority is subject to Indiana’s circuit breaker limitations.

USE OF PROCEEDS

Proceeds from the 2019A bonds will be used to finance the construction of a consolidated jail that will replace existing correctional facilities and processing center. Proceeds will also be used to construct a consolidated courthouse that joins civil, criminal, juvenile, and probate courts into a single facility.

Proceeds from the 2019B bonds will be used to finance the construction of an assessment and intervention center that will serve as facility providing temporary shelter, case assessment and treatment referral for mental health and addiction services.

PROFILE

With a population of approximately 863,000, Indianapolis is the largest city in Indiana and the 16th largest city in the US. In 1970, the governments of Marion County and the City of Indianapolis were unified and their services consolidated. Four municipalities in Marion County - Beech Grove, Lawrence, Speedway (A1), and Southport - are excluded from the consolidated government.

METHODOLOGY


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