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Ratings

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Summary:

Morgan County Public Library, Indiana; General Obligation

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Credit Profile		
US$2.2 mil GO bnds ser 2018 due 01/15/2031		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Morgan County Public Library, Ind.'s series 2018 limited general obligation (GO) bonds. The outlook is stable.

The bonds are the GO of the library payable from ad valorem property taxes to be levied on all taxable property within the library district. The ad valorem property tax pledge is subject to state circuit-breaker legislation, which caps the property tax burden for taxpayers based on a percent of the real estate parcels' gross assessed value. This can, and often does, reduce the total tax levy. The levy to cover debt service, however, is statutorily protected, allowing the library to distribute circuit-breaker losses first across nondebt service funds that receive property taxes. We rate the debt at the same level as our view of the district's general creditworthiness.

The library expects to use the bond proceeds to finance the costs of the renovation of and improvements to the Main Library Branch, including the construction of an addition and site work in the library district. We understand that the library plans on using about $2.2 million of its available funds toward the project in 2019.

The library's credit qualities reflect its maintenance of very strong cash reserves and our expectation that it is likely to keep them at that level, given its conservative budgeting practices and demonstrated track record. In addition, its strong revenue-raising flexibility is another factor as it relies primarily on revenues from property and local income taxes, which continues to increase due to economic stability. In our opinion, however, we believe that its current income indicators are below average and limit a higher rating.

The 'AA-' rating reflects our views of the library's

- Stable local economy, with potential for further growth, that benefits from its access to Indianapolis;
- Very diverse tax base, coupled with strong property wealth;
- Maintenance of available cash reserves in excess of 150% of general fund expenditures attributed to conservative and prudent management practices; and
- Expected maintenance of low-to-moderate overall debt burden given its limited debt needs.

We believe that the rating is constrained by the library district's incomes, which, albeit adequate-to-good, are below those of its higher rated peers.

Economy

The library serves an estimated population of 56,464 in Morgan County (excluding Brown Township) in central Indiana. It is about 30 miles southwest of the broad and diverse economic base of Indianapolis. There are several major highways served by the county, including Interstate 70, along with state roads 37, 39, and 67. We understand that there are plans underway to connect state road 37 with I-69, which could boost economic expansion.

The local economy largely centers on manufacturing and health care services, which have remained fairly stable, in our opinion. TOA (USA) LLC, manufacturer of automotive parts and supplies, is the largest employer with currently 1,107 employees. We understand that the company is slated to increase its staff to 1,168. Franciscan St. Francis Health and IU Health Morgan County have about 900 employees in total. However, incomes, while good to adequate, are below those of its higher rated peers and is a limiting rating factor. Median household effective buying income (EBI) is good, at 96% of the national level, while per capital EBI is adequate at 81%. We understand that Indiana Power and Light (INP&L) announced laying off 100 employees across central Indiana, which includes its facility in Martinsville. However, the company plans on opening a new $600 million facility there. INP&L is the library's largest taxpayer, accounting for about 3% of net assessed value (AV).

The tax base is very diverse and has demonstrated consistent growth through development. Certified 2018 net AV is $2.5 billion, up 2% from 2016. Gross AV totals about $4 billion in 2018 and equates to, in our opinion, a strong 69,981 per capita.

We understand that there are significant redevelopment and revitalization efforts ongoing in Martinsville within the library district's boundaries. New residential development will include lofts, for example.

Finances

The library has demonstrated a track record of achieving stable operations and very strong cash reserves. We expect that the library is likely to maintain its very strong reserves, which we believe will ultimately continue to support the rating. Although the library intends to use a portion of its cash reserves in 2019 to fund the above-mentioned projects, we believe that its cash reserves will likely remain very strong. According to management, it will use cash reserves primarily from the library improvement reserves and also from its rainy day fund.

The library is expecting that 2018 will end with a further increase in its cash reserves to about $2.6 million, with about $1.2 million in the general fund and $1.35 million in the rainy fund. The library improvement fund is expected to end at about $2.16 million. The library expects that it will rebuild its cash reserves through ongoing transfers from the general fund and excess revenues from the state. Its informal goal is to maintain its general fund cash reserves between $1.2 million and $1.4 million, which would provide six months of cash flow in case of delays in property tax receipts. General fund cash reserves averaged $1.3 million, or over 80% of general fund expenditures. Also, as per state guidelines, its rainy day fund cash reserves should not be more than 50% of the general fund operations, to which it adheres.

Available cash reserves averaged 150% of general fund expenditures within the past three fiscal years, which we believe is due to its budgeting assumptions that take into account economic changes, line-by-line comparison, and historical trends. However, the library does not do multiyear budget planning. In addition, necessary budgetary adjustments are made and monthly budget-to-actual reports are provided to the board.

The library's budget has averaged about $1.6 million over the past three years and has exhibited marginal changes. Property tax accounts for nearly 50% of revenues in fiscal 2017, while local income tax about 40%. These revenue sources have remained stable. Other than salaries and wages accounting for under 40% of the budget, the library has limited budgetary pressures.

The general operating fund has consistently achieved operating surpluses in excess of $400,000. However, due to the library's practice of maintaining between $1.2 million and $1.3 million in cash reserves in the general fund, the excess is transferred to the rainy day and library improvement reserve funds. Therefore, after the transfers, the general fund still achieved positive results, with the exception of 2017. In fiscal 2017, the library transferred $500,000 and ended with a marginal shortfall of $34,000. Nonetheless, the overall available cash (general and rainy day funds) increased and ended at about $2.8 million, or 176% of general fund expenditures in 2017. Available cash reserves grew from $2.5 million or 145% of expenditures in 2015.

The library adheres to its formal investment policy guided by state statute and its funds are primarily maintained in money market accounts. It reviews and reports on its investments annually.

Our analysis relies on unaudited, Dec 31 fiscal-year-end cash reports submitted to the state. These reports subscribe to the state's uniform system of accounting and reporting that all local governments are required to follow, and based on prior-year comparisons with state-examined data, we have considered them reliable to serve as a basis of our analysis.

Debt

Including the series 2018 bonds, the library's total direct debt equates to $2.3 million. It has no additional debt plans that we believe increase its debt burden and pressure its cash reserves.

Including overlapping debt for the underlying municipalities, school districts, and the county, the library's overall net debt per capita is low at 1,358 and 1.9% of market value. Debt service carrying charges was moderate at 12.7% of total governmental expenditures. We expect the debt service carrying charges should remain in line with the prior year. The library currently has one outstanding issue that will mature in 2019. While the library lacks a debt management policy, it adheres to the state debt limit, which it is currently well below.

Pension and other postemployment benefit liabilities

The library participates in the Indiana Public Employees' Retirement Fund (PERF), a multiple-employer defined-benefit pension plan. Management tells us that the district has been making its full required contribution toward the plan, which was $66,000 in fiscal 2017, or 3.5% of total governmental fund expenditures.

The library does not provide any retiree health care benefits.

Outlook

The stable outlook reflects our expectation that we will not change the rating within the two-year outlook horizon because we anticipate management will undertake adequate measures to maintain its very strong financial position, given its track record and conservative budgeting practices.

Downside scenario

We could lower the rating should the economy weaken, lowering its income indicators and if any budgetary pressures or capital spending substantially deteriorate reserves.

Upside scenario

We could raise the rating should income indicators improve to levels that are more in line with its higher rated peers, coupled with maintenance of stable and very strong cash reserves.

Related Research

- Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006

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.