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Ratings

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Summary:

Randolph County, Indiana; Appropriations; General Obligation

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Credit Profile		
US$5 mil lease rental rev bnds (County Highway Proj) ser 2019 due 01/15/2038		
Long Term Rating	A+/Stable	New
Randolph Cnty Bldg Corp, Indiana		
Randolph Cnty, Indiana		
Randolph Cnty Bldg Corp (Randolph Cnty)		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Randolph County Building Corp., Ind.'s series 2019 lease-rental revenue bonds, issued for Randolph County. At the same time, we affirmed our 'A+' rating on the building corporation's existing series 2016A and B lease-rental revenue bonds, also issued for the county. The outlook on both ratings is stable. Both ratings are based on an ad valorem property tax pledge.

The county intends to use series 2019 bond proceeds to construct a new county highway department garage facility.

In our view, the county's financial operations are stable, as it benefits from steady property and income tax performance and has very limited fixed debt and pension costs. The county's lack of employment diversification and generation could present a longer term credit challenge, particularly given the ongoing population declines.

The 'A+' rating reflects our view of the following factors, including Randolph County's:

- Very weak economy, factoring in a declining population;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with projected operating results in 2018 and 2019 that should improve slightly on fiscal 2017, which closed with minor operating deficits in the general operating fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2017 of 84% of operating expenditures;
- Very strong liquidity, with total government available cash at 71.1% of total governmental fund expenditures and 32.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.2% of expenditures and net direct debt that is 39.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and

- Strong institutional framework score.

The series 2019 bonds are being issued pursuant to a trust indenture between the building corporation and the trustee, and a lease between the building corporation, as lessor, and the county as lessee. Lease rentals paid by the county directly to the trustee secure the bonds. Rentals are payable from a special legislative income tax, as well as from ad valorem taxes against all taxable property in the county. The tax levy is not subject to annual appropriation under Indiana law, but there is abatement risk, as the county is required to abate lease rentals if the leased premises are not available for use. This risk is mitigated, in our view, by the lease requiring the county to maintain at least two years of lease interruption insurance as well as casualty insurance equal to full replacement cost. Additionally, the dependence on leased asset availability (the new highway department facility) presents construction risk. The bonds have been structured so that the first lease payments (June 2020) do not begin until six months after estimated project completion (December 2019). Interest is capitalized through January 2020. In our view, given the nature of the project, which we do not consider highly complex or unusual, and the timing, which provides sufficient cushion in between lease payments and estimated project construction, we consider construction risk mitigated.

The income tax pledged to the bonds is a special legislative tax with statutory restrictions on its usage. There are multiple series of existing debt, including the series 2016A and B bonds, secured by the special income tax. There is an additional bonds test of 1.25x, but debt that is secured by the income tax as well as by ad valorem property taxes (such as the series 2019, 2016A, and 2016B bonds) is excluded from meeting this test. Given the weak legal provisions, we rate these obligations based on the ad valorem tax pledge.

The ad valorem property tax pledges are subject to state circuit-breaker legislation, which caps the property tax burden for taxpayers based on a percentage of the real estate parcels' gross assessed value (AV). This can, and often does, reduce the total tax levy. The levy to cover debt service, however, is statutorily protected, allowing the district to distribute circuit-breaker losses first across nondebt service funds that receive property taxes. Despite the limited nature of the ad valorem tax pledge, we still view this as equivalent to our view of the county's general creditworthiness.

Very weak economy

We consider Randolph County's economy very weak, reflecting below-average incomes and market value per capita, as well as a declining population. It has an estimated population of 24,871 in east central Indiana, on the Ohio border. The county seat of Winchester is about 80 miles from Indianapolis and 70 miles from Dayton, and there are closer, though smaller regional employment centers nearby in Muncie (22 miles) and Richmond (25 miles). The projected per capita effective buying income is equal to 75.0% of the national level and per capita market value is $73,730.

The tax base is mostly rural, with the largest employers limited to small manufacturing facilities. The unemployment rate has been improving, dropping to a 4.1% average in 2017 (still above state and national levels), but the labor force and population are shrinking. The population fell 4.5% during the 2000s and estimates indicate a 7% decline over the past ten years and a 6% decline over the next ten. We consider the shrinking population a credit weakness, recognizing the longer term pressure this can place on the budget. Several years ago the county's largest employer closed its operations, though a large amount of the jobs were replaced by a new company which took over its vacant space. Management indicated that there have not been any recent significant job losses or reductions in employment, and that the county is working with local school districts to improve vocational and trade schools to provide students industry training and ultimately retain its population and labor force. If the population declines lessen over the next five years, the economic assessment could improve.

In terms of valuation, the net AV declined each of the last three years (but only by a total of 2.9%), to $1.12 billion in 2019. We understand the decline mostly stemmed from a large taxpayer receiving an abatement after expanding, which subsequently lowered its personal property assessment. The ten leading taxpayers account for less than 12% of total net AV. Estimated market value, measured as gross AV less tax-exempt properties, is $1.83 billion. There has been minimal new development activity in the past few years.

Adequate management

We view the county's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

The county employs third-party consultants every few years to assist it in updating a three-year fiscal plan, and though the updating is not done annually, this plan is used during the budgeting process. Management also reviews two-to-three years of historical data, its levy certifications from the department of local government finance, and communication with its utility and insurance providers for estimating annual revenue and expenditures. During the year, the county commissioners receive monthly reports, which include a treasury report noting investment holdings and a fund report noting each funds' beginning and ending cash balance, receipts and expenditures for the month, and remaining appropriations for the year. The county has adopted an investment policy that references state statute, but there is no formal debt or reserve policy. Management indicated there is an informal cash reserve target of 15%, and although reserves are well above this level, the target was not clearly defined or tied to specific purposes, in our view. Additionally, there is no comprehensive, rolling capital improvement plan in place, although management indicated some departments maintain informal plans and equipment replacement inventories.

Adequate budgetary performance

Randolph County's budgetary performance is adequate, in our opinion, with mostly balanced operating results in recent years, a trend we expect to continue in the near term.

In fiscal 2017, the county had slight deficit results in the combined operating fund and total governmental funds, equal to negative 2.1% and 1.3% of expenditures, respectively. This followed surpluses in fiscal years 2015 and 2016. Management projects that 2018 results will show break-even performance, and that 2019 results will show minimal deficits. We have adjusted our assessment to account for expectations of mostly balanced results in 2018 and 2019, which are slightly better than 2017 results.

Our calculations for the general operating fund combine the general and public safety funds (it also includes the county-adjusted gross income tax fund, although this was merged with the general fund in 2017 and no longer exists). Performance has overall been steady in recent years, which was aided in part by the introduction of the public safety income tax beginning in 2015. Management reports that it has also controlled spending in recent years by reducing and consolidating staff positions, while also limiting salary increases (and in some cases, not granting any at all). Combined operating fund spending was $9.9 million in 2017, up from $9.4 million in 2016. Management indicated that it could reduce spending without much disruption if needed, in response to potential revenue declines. The main revenue sources are property taxes (48% of operating fund revenues) and income taxes (25%). Though not increasing significantly, property taxes are steady and collections are strong. Income taxes are stable as well.

Our analysis relies on unaudited, Dec 31 fiscal-year end cash reports that are submitted to the state. These reports prescribe 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 consider them reliable to serve as a basis of our analysis.

Very strong budgetary flexibility

Randolph County's budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2017 of 84% of operating expenditures, or $8.3 million. We expect the available cash reserve to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Impairing budgetary flexibility, in our view, is Randolph County's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

The cash reserve includes $3.6 million (35.7% of expenditures) in the combined general and public safety fund and $4.8 million (48%) that is outside these two operating funds but legally available for operations. These funds include the local income tax economic development, cumulative capital development, rainy day, and wind farm funds. Although on a combined basis, the available cash reserve exceeds 75% of operating fund expenditures, we recognize that the non-operating funds also have annual spending needs, which could potentially lead to draws on cash and partially limits our view of the availability. Additionally, management indicated that a portion of the wind farm cash could be used for upcoming capital projects. The wind farm funds generate revenues from fixed payment schedules with developers, who in return receive property tax abatements. Over the near and medium term, we anticipate cash reserves remaining very strong.

Very strong liquidity

In our opinion, Randolph County's liquidity is very strong, with total government available cash at 71.1% of total governmental fund expenditures and 32.4x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

We expect the county's cash levels will remain very strong through the next few years. Supporting our determination that it has strong access to external sources of liquidity if needed is its semi-frequent record of debt issuance over the past few decades. The county's investments are primarily in certificates of deposit and in cash and cash equivalents, which we do not consider aggressive. It has no direct-purchase or variable-rate debt.

Very strong debt and contingent liability profile

In our view, Randolph County's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.2% of total governmental fund expenditures, and net direct debt is 39.5% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is, in our view, a positive credit factor.

Including the series 2019 bonds, the county's direct debt burden is only $9.7 million, of which 61% amortizes in the next ten years. Management indicated there are plans to issue another $3 million to $4 million in income and property tax-secured debt in 2019, to address various needs, including courthouse renovations, but we do not expect this to materially weaken the debt profile.

The county has limited long-term pension pressures. It maintains two small, single-employer defined-benefit pension plans for its police, and also participates in the state-administered Indiana Public Employees' Retirement Fund (PERF), which is a cost-sharing, multiple-employer defined-benefit plan (the plans share all risks and costs, including benefit costs, proportionately by the participating employers). The county continues to pay 100% of its required pension contributions (which are actuarially determined) to each plan; the 2017 payment was $714,000, equal to 2.9% of total funds' expenditures.

The police retirement plan is 71% funded and has a net pension liability of $1.08 million, while the police benefit plan is 100% funded. The county allows employees to remain on its health care plan on retirement, but retirees pay the full amount of their premiums. Therefore, there is only an implicit liability to the county.

As of June 30, 2017, the PERF plan was 76.6% funded, in accordance with Governmental Accounting Standards Board (GASB) Nos. 67 and 68. We view the plan's actuarial assumptions, including this assumed rate of return of 6.75% as generally reasonable because they are slightly more conservative than the national average. Considering the plans' strong funded ratios, reasonable actuarial assumptions, and low historical contribution requirements for plan participants, we do not expect the county's required pension costs to increase significantly in the medium term.

Strong institutional framework

The institutional framework score for Indiana counties is strong.

Outlook

The stable outlook reflects our view that Randolph County will maintain adequate or better budgetary performance, and thereby continue to operate with very strong budgetary flexibility and liquidity. The county is not burdened by high debt or high fixed costs, its operating revenues are stable, and its high cash reserves afford it some flexibility to manage potential increases in operating costs, all of which support our expectation of credit stability. Therefore, we do not anticipate changing the rating within the next two years.

Upside scenario

All factors remaining the same, if the county's economy improves, which could be marked by new economic development, increased employment, and stabilizing population, we could raise the rating.

Downside scenario

We could lower the rating if the county significantly spends down its very strong cash reserves, whether due to operational imbalance, one-time spending, or a combination of the two.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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.