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Ratings

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Summary:

Yorktown Redevelopment Authority, Indiana
Yorktown; Appropriations; General Obligation

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Credit Profile		
US$3.985 mil ad valorem prop tax lse rental bnds (Yorktown) ser 2018 dtd 12/27/2018 due 07/15/2038		
Long Term Rating	A+/Stable	New
Yorktown redev dist bnds of 2009		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to the Yorktown Redevelopment Authority, Ind.'s series 2018 ad valorem property tax lease rental bonds, issued for Yorktown. At the same time, we affirmed our 'A+' long-term rating on the town's existing debt. The outlook is stable.

The 'A+' rating is based on our view of the town's ad valorem property tax pledge. The 2018 bonds are issued pursuant to a trust indenture between the Yorktown Redevelopment Authority and the trustee, and a lease between the authority as lessor and the Yorktown Redevelopment Commission as lessee. The Yorktown Redevelopment Commission is a department of the town. Lease rentals paid by the commission directly to the trustee secure the bonds. Rentals are payable from ad valorem taxes against all taxable property within the Yorktown Redevelopment District. The boundaries of the district are coterminous with those of the town.

The series 2018 bond proceeds will be used for the construction and reconstruction of Canal Street, including sidewalks, streetscape, and utility improvements.

The ad valorem property tax levy is not subject to annual appropriation under Indiana law. However, there is abatement risk, as the town is required to abate lease rentals in the event the leased premises are not available for use. This risk is mitigated, in our view, by the lease requiring the town to maintain at least two years of lease interruption insurance as well as casualty insurance equal to full replacement cost.

There is minimal construction risk, as the leased premises are considered partially occupied. Furthermore, the first lease payments are scheduled to occur more than six months after the expected completion of construction, which, in our view, provides cushion in case of construction delays.

The ad valorem property tax pledge is 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. This can, and often does, reduce the total tax levy. The levy to cover debt service, however, is statutorily protected, allowing the town to distribute circuit-breaker losses first across non-debt-service funds that receive property taxes. We rate the debt at the same level as our view of the town's general creditworthiness.

In our view, the town's proximity to the employment bases of Muncie, Anderson, and greater Indianapolis is a credit strength that has contributed to economic development and revenue growth. We anticipate that the local economy will remain relatively stable over the next few years, which should lead to credit stability. While the town has significantly built its cash reserves in recent years, it is undergoing a period of higher capital spending, particularly in its downtown area, which we believe could negatively affect the town's reserves and debt profile over the next few years. Last, while we believe that the town has taken adequate steps to mitigate former deficiencies in its internal controls, a lack of more formal financial policies and practices remains a limiting credit factor.

The 'A+' rating reflects our view of the town's:

- Weak economy, with projected per capita effective buying income at 104.6% of the national level and market value per capita of $64,046;
- Adequate management, with standard financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2017 of 113% of operating expenditures;
- Very strong liquidity, with total government available cash at 117.1% of total governmental fund expenditures and 15.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.6% of expenditures and net direct debt that is 166.2% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 68.0% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Weak economy

We consider Yorktown's economy weak. The city, with an estimated population of 9,293, is located in Delaware County. The city has a projected per capita effective buying income of 104.6% of the national level and per capita market value of $64,046. Overall, the city's market value grew by 2.2% over the past year to $595.2 million in 2018. The county unemployment rate was 4.2% in 2017.

Yorktown is adjacent to Muncie, 12 miles east of Anderson, and 60 miles northeast of Indianapolis. The town is primarily a bedroom community, and we understand most residents commute to Anderson, Muncie, or Indianapolis for work. Muncie is home to Ball State University, which has an estimated enrollment of 19,000 students and an employee base of nearly 3,370 full-time employees. According to management, other employers have been either stable or expanding.

The town's proximity to several employment bases, a lower cost of living, and attractive school system have been driving population growth in recent years. The town's taxable values have also been increasing, and we expect this trend to continue based on new residential construction and the town's downtown redevelopment plan. Although we consider the economy weak, our assessment could improve if the town's per capita effective buying incomes and market value rise.

Adequate management

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

Budget assumptions are based on historical trends. The town council receives a monthly appropriation report that tracks month-to-date and year-to-date expenditures in comparison to budget appropriations. However, the council does not receive a report on revenue. The town has no formal long-term financial or capital plans. The town adheres to state guidelines for debt and investments, and the council receives an annual report on investment holdings. While lacking a formal reserve policy, the town does aim to maintain reserves above 25% of operating expenditures, which it is currently meeting.

The Indiana State Board of Accounts identified numerous errors in the town's financial statements for fiscal years 2013 through 2015, and as a result did not grant a clean auditor's opinion for those years. The errors stemmed from deficiencies in the town's internal control system related to financial transactions and reporting. In response, the town hired an independent accounting firm to assist the town's clerk-treasurer, and implemented a corrective action plan, and we believe that these steps have largely mitigated the previous deficiencies. The Indiana State Board of Accounts issued a clean auditor's opinion for fiscal years 2016 and 2017.

In July 2017, the State of Indiana filed a complaint for the removal of the town's clerk-treasurer from office, alleging that she had failed to perform her official statutory duties. A county circuit court declined to remove her from office, then a state court of appeals reversed that decision. The case is now with the Indiana Supreme Court. We don't believe the outcome of the case will have any material financial impact on the town, as the town has been paying the clerk-treasurer's salary. Furthermore, the clerk-treasurer's term expires at the end of 2018, and the independent accounting firm is assisting with the transition and onboarding of the new clerk-treasurer-elect.

Strong budgetary performance

Yorktown's budgetary performance is strong, in our opinion. The city had operating surpluses of 11.2% of expenditures in the general fund and of 16.3% across all governmental funds in fiscal 2017. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2017 results in the near term.

As part of our analysis, we combined the town's fire department fund with the general fund, as this fund represents a core operating service. A favorable revenue environment and controlled spending have contributed to strong budgetary performance in recent years. Property taxes are the town's largest general fund revenue source at 32%, followed by garbage fees (21%) and local income taxes (18%). Recent economic growth has contributed to revenue increases over the past three years, and we believe it will continue to support strong budgetary performance. We anticipate that the town will end 2018 with close to balanced operations. Given increasing revenue and a lack of major cost pressures, we believe the town will maintain balanced operations in 2019 as well.

Very strong budgetary flexibility

Yorktown's budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2017 of 113% of operating expenditures, or $2.9 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. The cash reserve consists of $1.7 million (66.9% of expenditures) in the general fund and $1.2 million (46% of expenditures) that is outside the general fund but legally available for operations. Negatively affecting budgetary flexibility, in our view, is Yorktown's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

In addition to the general fund, the town's "rainy day," cumulative capital improvement and cumulative capital development, and economic development income tax funds hold unrestricted cash reserves, which Yorktown could use to support general operations. In recent years, the town has been purposefully building up reserves in anticipation of future capital needs. The town estimates that unrestricted cash reserves will stand at about $2.1 million, or about 81% of general fund expenditures, at the end of 2018. The town is spending down a portion of its reserves in 2018 and 2019 to support capital projects, as part of its strategic plan. However, we anticipate that reserves will remain in excess of 30% of expenditures, which we view as a positive credit factor.

Very strong liquidity

In our opinion, Yorktown's liquidity is very strong, with total government available cash at 117.1% of total governmental fund expenditures and 15.4x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

The town has been able to tap capital markets over the past 20 years by issuing various types of obligations. We do not consider the town's investments aggressive. The town's series 2015 economic development lease rental refunding bonds and its town hall bonds (issued through a lease agreement) were both privately placed with banks, but neither are subject to acceleration, so we don't view them as a contingent liquidity risk. We do not expect the liquidity to change materially over the next two years.

Adequate debt and contingent liability profile

In our view, Yorktown's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.6% of total governmental fund expenditures, and net direct debt is 166.2% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, and approximately 68.0% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Negatively affecting our view of the city's debt profile are its significant medium-term debt plans.

The town plans to issue a total of $7 million in additional debt in 2019 and 2020.

The town contributes to the Indiana Public Employees' Retirement Fund, a cost-sharing, multiple-employer defined benefit plan. (Participating employers share all risks and costs, including benefit costs, proportionately.)

The town continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was equal to 4.4% of total governmental funds' expenditures.

As of June 30, 2017, the retirement fund was 76.6% in accordance with Governmental Accounting Standards Board Statement 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 strong funded ratio, reasonable actuarial assumptions, and low historical contribution requirements for plan participants, we do not expect the town's required pension costs to increase significantly in the medium term.

The town does not provide any retiree health care benefits to employees.

Strong institutional framework

The institutional framework score for Indiana municipalities is strong.

Outlook

The stable outlook reflects our expectation that Yorktown will continue to take appropriate steps to maintain structural balance and at least strong budgetary flexibility. Ongoing economic development within the town also support the outlook. We do not anticipate changing the rating in the two-year outlook horizon.

Upside scenario

We could raise the rating if the local economy continues to grow, leading to sustained improvement in per capita effective buying income and market value, if budgetary flexibility is maintained at very strong levels, and if the town adopts more formalized financial policies and practices.

Downside scenario

A lower rating is possible if the budgetary performance were to decline to a level we view as weak or very weak, causing significant deterioration in the town's budgetary flexibility and liquidity.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 2018 Update Of Institutional Framework For U.S. Local Governments