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Ratings

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Summary:

Brownsburg Town (Hendricks County), Indiana; General Obligation; General Obligation Equivalent Security

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Summary:

Brownsburg Town (Hendricks County), Indiana; General Obligation; General Obligation Equivalent Security

Credit Profile		
US$3.0 mil GO bnds ser 2018 due 01/01/2030		
Long Term Rating	AA+/Stable	New
Brownsburg Redev Auth, Indiana		
Brownsburg Twn (Hendricks Cnty), Indiana		
Brownsburg Redev Auth (Brownsburg Twn (Hendricks Cnty)) econ dev lse rental rev rfdg bnds (Brownsburg Town (Hendricks County)) ser 2016 due 02/01/2029		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the town of Brownsburg, Ind.'s series 2018 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the town's existing debt. The outlook is stable.

The series 2018 GO bonds are secured by an ad valorem property tax pledge to be levied on all taxable property within the town. Management indicates that bond proceeds will be used for various construction and improvements to streets, roadways, and intersections, including road improvements, resurfacing, and drainage improvement projects.

The ad valorem tax securing the series 2018 GO bonds and existing debt 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, which allows the town 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 town's general creditworthiness.

Existing lease-backed bonds are issued pursuant to a trust indenture between the town and the trustee and a lease. Lease rentals paid by the town directly to the trustee secure the bonds. Rentals are payable from ad valorem taxes against all taxable property within the town's boundaries. 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 and by requiring the town to substitute the premises for a different asset with equal or greater value if the original premises are deemed unusable.

Certain outstanding bonds are expected to be paid with pledged tax increment revenue and other revenue, and to the point this revenue is insufficient, the bonds are also secured by the town's special benefits tax. The special benefits tax is an ad valorem property tax levied on all taxable property within the Brownsburg Redevelopment District. The redevelopment district is coterminous with the town. We rate these bonds based on the special benefits tax pledge because we believe the property tax securing the lease payments is stronger than the pledge of tax increment and other revenue.

The 'AA+' rating reflects our assessment of the following factors for the town, specifically its:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with a high available cash reserve in fiscal 2017 of 111% of operating expenditures;
- Very strong liquidity, with total government available cash at 86.9% of total governmental fund expenditures and 6.2x governmental debt service, and access to external liquidity we consider strong, but an exposure to a non-remote contingent liability risk;
- Very weak debt and contingent liability position, with debt service carrying charges at 14.0% of expenditures and net direct debt that is 228.2% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Brownsburg's economy strong. The town, with an estimated population of 23,983, is located in Hendricks County in the Indianapolis-Carmel-Anderson, IN MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 106.6% of the national level and per capita market value of $92,014. Overall, the town's market value grew by 5.5% over the past year to $2.2 billion in 2018. The county's unemployment rate was 2.9% in 2017.

The town is approximately 15 miles northwest of downtown Indianapolis. Hendricks County is the third-fastest-growing county in the state, and its population has increased by more than 40% since 2000. The town's local economy is also growing at a healthy pace. Most notable developments include a $90 million multi-developer downtown redevelopment project, which is currently under construction, and a $48 million hospital opened by the Hendricks Regional Health Expansion. The local and surrounding area economies provide a diverse offering of employment opportunities. The town's largest employers include Avon Community Schools (public education, 1,265 employees), Home Goods Distribution Center/TJX Companies Inc. (retail warehouse and distribution, 1,040 employees), Brownsburg Community Schools (public education, 992 employees), and Hendricks County (government, 523 employees). The leading taxpayers of the town include warehouse and manufacturing companies, as well as retail and residential properties; the 10 leading taxpayers account for about 17% of the net assessed valuation. Management expects that growth in the town will continue with ongoing development expected in the commercial and real estate sectors, which we view as likely.

Strong management

We view the town'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 town maintains and annually updates a comprehensive financial management plan (currently projected out until 2022). Additionally, management tracks upcoming street and infrastructure needs with a five-year rolling projection of project costs. We understand the town is in the process of expanding its capital projections to include normal maintenance and replacement costs. The town has an informal target of maintaining a cash balance of 20%-25% of operating expenditures. It was in compliance with the target in 2017. Management provides elected officials with monthly budget reports. The town's investment management policy mirrors state guidelines, and officials receive at least annual updates on the town's investment holdings and earnings. Officials use zero-based budgeting and formulate budget assumptions using historical data and outside sources. There is no debt management policy at this time.

Strong budgetary performance

Brownsburg's budgetary performance is strong in our opinion. The town had surplus operating results in the general fund of 9.0% of expenditures, but a deficit result across all governmental funds of negative 2.6% in fiscal 2017.

Management's general fund projections for calendar year 2018 show a slight use of reserves due to the one-time purchase of property for parks and recreation purposes. When excluding the one-time costs, preliminary estimates show a slight surplus of 0.5% of budgeted general fund expenditures, or about $52,000. For calendar year 2019, management estimates another surplus in the general fund equal to about 1.5% of expenditures.

Property and income taxes are the primary source of revenue for the general fund, accounting for 40% and 37% of total general fund revenue, respectively. On average, the general fund expenditures track 6%-8% below the budget, and revenue is growing at a healthy pace; therefore, we may see improvement in the 2018 actual results compared to budgeted results.

Total governmental funds may show deficits due to capital-related spending. Several major mixed-use projects are being developed currently. The town's management plans to participate in the projects by making cash contributions from the economic development income tax (EDIT) fund. The contributions will be phased out over the next several years. Overall, we expect the town's budgetary performance to remain strong over the next two years.

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

Very strong budgetary flexibility

Brownsburg's budgetary flexibility is very strong, in our view, with a high available cash reserve in fiscal 2017 of 111% of operating expenditures, or $10.0 million. We expect the available cash reserve to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The cash reserve includes $5.9 million (65.3% of expenditures) in the general fund and $4.1 million (45% of expenditures) that is outside the general fund but legally available for operations. Negatively affecting budgetary flexibility, in our view, is Brownsburg's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

The other available funds include "rainy day," cumulative capital development (CCD), riverboat, and EDIT funds. To date, management hasn't used these funds to pay for general fund expenditures. The rainy day, CCD, riverboat, and EDIT funds, however, are legally available and can be used to supplement general fund operations and do not have internal or external restrictions. Despite the town's plans to help fund several mixed-use projects with cash (as mentioned above), we expect the town's available reserves to remain in excess of 75% of operating expenditures over the two-year outlook horizon, based on management's projections and because the town typically outperforms its budget.

Very strong liquidity

In our opinion, Brownsburg's liquidity is very strong, with total government available cash at 86.9% of total governmental fund expenditures and 6.2x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary. Weakening Brownsburg's liquidity position, in our assessment, is the town's exposure to a non-remote contingent liability that could come due within 12 months.

We do not expect liquidity to worsen in the near future. Although the state allows for what we consider permissive investments, Brownsburg's are mostly in only money market accounts, which we do not consider aggressive. The town has issued various general obligation (GO)-supported obligations over the past 20 years, proving strong access to capital markets. In 2017, the town entered into two privately placed agreements, one of which creates contingent liability risk, in that the lender of the loan may accelerate the $7.1 million balance over a period of three years, if an event of default has occurred. Given that we do not view the events of default as permissive, we believe it is unlikely that the balance of the loan will be accelerated, and we believe the town has robust cash reserves to pay down the balance if needed without negatively affecting the overall liquidity position.

Very weak debt and contingent liability profile

In our view, Brownsburg's debt and contingent liability profile is very weak. Total governmental fund debt service is 14.0% of total governmental fund expenditures, and net direct debt is 228.2% of total governmental fund revenue.

Per our conversation with management, we have excluded bond-related funds from our consideration of total governmental fund revenue. Since the last review, the town's total debt of the town has increased only modestly with the new issue. We understand that the town may issue approximately $3 million in GO bonds during 2019 and could potentially issue debt for a sewer-storm water separation project in future years, though we understand such an issuance would likely be paid from enterprise revenue.

The town contributes to two retirement plans administered by the state: the Indiana Public Employees' Retirement Fund (PERF) and the 1977 Police Officers' and Firefighters' Retirement Fund ('77 Fund). These plans are cost-sharing, multiple-employer defined benefit plans (the plans share all risks and costs, including benefit costs, proportionately by the participating employers).

Certain employees are also covered by legacy police and firefighter retirement plans (1925 Police Pension, 1937 Police Pension, and 1953 Pension Funds). While these plans' liabilities belong to the local entities, the state has assumed

100% of the cost and has been historically funding the benefits on a pay-as-you-go basis through its pension relief fund. Given the state's commitment to funding these costs, we do not consider them a liability of the local entities.

The town continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was equal to 6.9% of total governmental funds' expenditures.

As of June 30, 2017, the PERF was 76.6% funded and the '77 Fund was 100.3% funded, in accordance with Governmental Accounting Standards Board (GASB) Nos. 67 and 68. We view the plans' 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 town's required pension costs to increase significantly in the medium term.

The town allows employees to remain on its health care plan upon retirement; the town pays for half of retirees' premiums.

Strong institutional framework

The institutional framework score for Indiana municipalities is strong.

Outlook

The stable outlook reflects our expectation that the town will maintain very strong budgetary flexibility and liquidity over the two-year outlook horizon. We expect combined reserves to exceed 75% of operating expenditures for the next two to three years. As a result, we don't expect to change the rating during the next two years.

Downside scenario

If debt grows both on a nominal basis and as a percentage of annual spending and available reserves fall to below 75% of operational expenditures for multiple years due to increased capital spending, we could take a negative rating action, especially given that the town lacks formalized and comprehensive debt policies and reserve policies.

Upside scenario

Given the number of developments and the town's participation in the Indianapolis MSA economy, we expect economic metrics to start improving gradually, but not to the extent that would warrant an upgrade during our two-year outlook horizon. However, if income levels improve substantially, we could consider a higher rating.

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
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 28, 2018)		
Brownsburg Town (Hendricks County) (Wynne Farms Proj)		
Long Term Rating	AA+/Stable	Affirmed
Brownsburg Twn (Hendricks Cnty) econ dev spl benefits tax rev bnds (Wynne Farms Proj) ser 2013A due 02/01/2033		
Long Term Rating	AA+/Stable	Affirmed
Brownsburg Redev Auth, Indiana		
Brownsburg Twn (Hendricks Cnty), Indiana		
Brownsburg Redev Auth (Brownsburg Twn (Hendricks Cnty)) GO		
Long Term Rating	AA+/Stable	Affirmed
Brownsburg Redev Auth (Brownsburg Twn (Hendricks Cnty)) GOEQUIV		
Long Term Rating	AA+/Stable	Affirmed
Brownsburg Redev Auth (Brownsburg Twn (Hendricks Cnty)) Lse Rental Rev Bnds (Brownsburg Twn) (Arbuckle Commons Proj) ser 2017 dtd 06/16/2017 due 02/01		
Long Term Rating	AA+/Stable	Affirmed
Brownsburg Redev Auth (Brownsburg Twn (Hendricks County))		
Long Term Rating	AA+/Stable	Affirmed
Brownsburg Redev Comm, Indiana		
Brownsburg Twn (Hendricks Cnty), Indiana		
Brownsburg Redev Comm (Brownsburg Twn (Hendricks Cnty)) redev dist bnds (Brownsburg Twn (Hendricks Cnty)) ser 2018 due 02/01/2035		
Long Term Rating	AA+/Stable	Affirmed

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.