S&P Global Ratings

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Summary:

Hamilton North Public Library, Indiana; General Obligation

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Credit Profile		
US$2.535 mil GO bnds ser 2018 due 01/15/2038		
Long Term Rating	A+/Stable	New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Hamilton North Public Library, Ind.'s series 2018 general obligation (GO) bonds. The outlook is stable.

The series 2018 bonds will be used to finance various renovation and improvement projects to the library's Cicero branch facility.

The 'A+' rating reflects our view of:

- Stable local economy, with access to the greater Indianapolis area job base, which supports very strong income indicators;
- Available reserves, which we consider strong on a cash basis of accounting; and
- Low overall net debt levels.

Partially offsetting the above strengths in our view is the library's below average debt amortization.

The library has benefitted in recent years from higher than expected revenue, including property and income tax receipts, which has led to positive operations in each of the past four years. Positive operations have resulted in a sizable available reserve when compared to the library's operating expenditures, which we view as a credit strength. In our opinion, the library's high debt service carrying charges with below average amortization present credit weaknesses, and we recognize that an increased reliance on debt in the future could potentially pressure the library's operations.

The 2018 bonds are secured by the library district's GO pledge, which includes the levy of an ad valorem property tax assessed on all taxable property in 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 non-debt service funds that receive property taxes. We rate the limited-tax GO debt at the same level as our view of the library's general creditworthiness.

Economy

The Hamilton North Public Library serves an estimated population of 10,854, providing services to residents of Jackson Township, including the towns of Arcadia, Atlanta, and Cicero. The library maintains a branch in the town of Atlanta and its main branch resides in the town of Cicero, located approximately 30 miles north of Indianapolis and 12 miles north of Fishers in northern Hamilton County. As a bedroom community to Indianapolis, the library is situated in a predominately rural setting. The library provides a variety of material and programming to the community, with a growing emphasis on electronic resources. The library also offers reciprocal borrowing agreements with area libraries, meeting rooms, and internet access for patrons. Total circulation has remained very consistent in recent years, having increased by 0.3% since 2015 to 96,136 materials in 2017.

Residents of the library district have direct access to the diverse Indianapolis metropolitan statistical area (MSA) and its strong employment base. The district's proximity to and participation in the larger metro area have contributed to below-average unemployment rates and very strong income indicators. The county's average unemployment rate was 2.7% in 2017, below the state's 3.5% and the nation's 4.4% rates. Income levels in the county are very strong in our opinion, with per capita and median household effective buying incomes at 142% and 153%, respectively, of the national averages. The library's net assessed value (AV) has grown over the past three years, increasing 8.4% since 2015 to $583 million in 2018. Gross real estate value, which is more reflective of actual market value, totaled $930 million in 2017, a level that we view as very strong at $85,651 per capita. The tax base is very diverse, with the 10 leading accounting for 11.9% of net AV. Despite a statewide reassessment of agricultural values, management anticipates slight increases in AV to continue in future years. Management expects any AV loss as a result of the reassessment to be offset by recent expansion of top taxpayers in conjunction with general increases in property values, which we view as likely.

Finances

We expect the library's available fund balance will remain strong on a cash basis of accounting in future years. At calendar year-end 2017, the operating fund balance totaled $264,000, or 50.3% of recurring operating expenditures. The library's other fund which we view as available is the "rainy day" fund, which totaled $222,000, or 42.3% of operating expenditures. The total available fund balance across all available funds equals $486,000, a level that we consider strong on a cash basis of accounting at 92.7% of operating expenditures.

The library has reported positive operating results in each of the past four years. After accounting for a one-time transfer from the rainy day fund into the operating fund for cash flow purposes, the library reported a $36,000 surplus in its operating fund (or 6.9% of expenditures) in 2017. Management attributes the positive operating performance in recent years to higher than expected revenue, including both property tax and income tax revenue, which exceeded budgeted amounts. General property taxes accounted for approximately 32.3% of the operating revenue, and local income tax receipts accounted for 59.2% in 2017. In fiscal 2018, the library expects to report a slight decrease in its operating fund cash to approximately $231,000, a level that when combined with the expected ending rainy day balance of $230,000, remains strong in our opinion at approximately 88.0% of operating expenditures. We understand that management does not have any plans to significantly spend down its available fund balances over the next few 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, have been deemed reliable to serve as a basis of our analysis.

Debt

We consider overall net debt, including overlapping debt, low, at 2.0% of gross AV and $1,719 per capita. We recognize that approximately 79% of stated debt was issued and currently carried by overlapping entities. The library's own debt is more manageable, at approximately $361 per capita. Direct-debt amortization is below average, with officials planning to retire 39% of direct debt over the next 10 years. Debt service carrying charges were high, in our view, at 26.0% of governmental funds expenditures, less capital outlay, in 2017. However, the elevated fixed debt costs are somewhat mitigated by the single-purpose nature of the library, which provides unique flexibility to reduce expenditures within the operating budget. The library does not expect to issue additional debt within the next two years.

The library's 2017 GO bonds were privately placed with Huntington Public Capital Corporation in October 2017. The bonds were issued for $1.5 million, of which $1.38 million remains outstanding and will mature in 2029. We recognize that the agreement contains no events of default or covenant violations that we deem nonstandard pursuant to our contingent liquidity criteria.

Pension

The library contributes to a defined contribution plan offered to eligible employees. The library contributed $9,000 to the plan in 2017, equivalent to 1.7% of operating expenditures. We do not expect pension contributions to have a significant impact on the library's finances in future years.

Outlook

The stable outlook reflects our expectation that the library will maintain combined available reserves that are strong on a cash basis of accounting near current levels. As a result, we do not expect to change the rating during the two-year outlook horizon. The library's participation in the greater Indianapolis economy provides additional stability to the rating.

Downside scenario

If the library were to significantly decrease its currently strong level of available reserves as a result of ongoing budgetary pressure or as a result of one-time capital spending, we could lower the rating.

Upside scenario

We could raise the rating if the library's level of available reserves increased and were sustained at levels in line with those of its higher-rated peers, assuming no deterioration in other credit factors.

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 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.