

# RatingsDirect®

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## Summary:

### Greenfield, Indiana; General Obligation; General Obligation Equivalent Security

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## Summary:

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### Credit Profile

US\$3.3 mil pk dist bnds ser 2018 due 01/15/2032

*Long Term Rating*

AA-/Stable

New

Greenfield GO bnds

*Long Term Rating*

AA-/Stable

Affirmed

## Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the city of Greenfield, Ind.'s series 2018 limited ad valorem property tax park district bonds. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the city's 2016 general obligation (GO) bonds. The outlook on all ratings is stable.

The 2018 bonds are secured by, and payable from, a special benefits tax (ad valorem property tax) subject to Indiana's circuit breaker legislation levied within the park district boundaries, which is coterminous with the city. Greenfield will use bond proceeds to fund various improvement and upgrade projects for the city's swimming pool.

The 2016 GO bonds are secured by ad valorem taxes against all taxable property in the city, subject to Indiana's circuit breaker legislation.

The ad valorem property tax pledges are 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 city 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 city's general creditworthiness.

The 'AA-' ratings reflect our view of the city's:

- Adequate economy, with projected per capita effective buying income at 84.0% and market value per capita of \$68,583, that is gaining advantage from access to a broad and diverse metropolitan statistical area (MSA);
- 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 43% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.6x total governmental fund expenditures and 786.3x governmental debt service, and access to external liquidity we consider strong;

- Strong debt and contingent liability position, with debt service carrying charges at less than 1% of expenditures and net direct debt that is 32.3% of total governmental fund revenue; and
- Strong institutional framework score.

### **Adequate economy**

We consider Greenfield's economy adequate. The city, with an estimated population of 22,192, is located in Hancock County in the Indianapolis-Carmel-Anderson, IN MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 84.0% of the national level and per capita market value of \$68,583. Overall, the city's market value grew by 5.8% over the past year to \$1.5 billion in 2016. The county's unemployment rate was 3.0% in 2017.

Greenfield is the seat of Hancock County and is located approximately 15 miles east of Indianapolis, and residents benefit from additional employment opportunities afforded by their participation in the greater Indianapolis economy. The city's population has grown rapidly over the past two decades, having increased by over 40% since 2000. The growth of the past two decades is due primarily to the city's proximity to the state capital, Indianapolis. The city's assessed value has increased in recent years due in part to the opening of several facilities and the expansion of existing taxpayers. Management expects increases in AV will continue in future years due to ongoing expansions of top taxpayers and ongoing development, including both residential and industrial, which we view as likely.

### **Adequate management**

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

Our Financial Management Assessment reflects:

- The use of three to five years of history and the use of outside sources when forecasting trends;
- The council receives monthly reports of budget to actual results;
- Longer-term financial discussions, but no formal and regularly updated plan beyond the budgeted year;
- Five-year capital plan, which includes a prioritization of future projects, is shared with the council, and is updated at least annually, but comprehensive funding sources are not identified;
- Formal investment management policy with monthly reporting to the council of investment holdings and earnings; No formal debt management policy, but adherence to state limits; and
- Informal reserve target of maintaining reserves of at least 20% of operating expenditures to avoid borrowing for cash-flow purposes.

**Strong budgetary performance** Greenfield's budgetary performance is strong in our opinion. The city had operating surpluses of 2.2% of expenditures in the general fund and of 6.5% across all governmental funds in fiscal 2017.

We expect Greenfield's budgetary performance will remain strong over the next few years. We view the city's combined general, LOIT public safety, and fire territory funds as its operating funds. For fiscals 2018 and 2019, management expects to report at least stable cash balances across its operating funds, in line with the balances at the

end of fiscal 2017, which we view as likely. The city's operating performance has benefitted in recent years from adopting a policy of filing for its maximum property tax levy each year, which has resulted in increasing available cash balances across operating funds.

Total governmental funds have historically operated with slightly positive results, which we expect will continue in the near term. The two main general fund revenue sources are property (45%) and income (28%) taxes. Both revenue categories have performed well in the past several years. The city's share of countywide income tax revenue is based on Greenfield's property tax as a percent of the total county tax. As property tax revenue increases, so will income tax revenue. Taking into account historical and projected operating results, as well as the economic environment, we expect 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 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 have deemed them reliable to serve as a basis of our analysis.

### **Very strong budgetary flexibility**

Greenfield's budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2017 of 43% of operating expenditures, or \$6.3 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. The cash reserve includes \$3.5 million (23.8% of expenditures) in the general fund and \$2.8 million (19% of expenditures) that is outside the general fund but legally available for operations. Negatively affecting budgetary flexibility, in our view, is Greenfield's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

In assessing the city's financial flexibility, we considered the general fund, fire territory, and the LOIT public safety fund along with other available funds including rainy day, and economic development income tax funds. While the use of cash accounting limits transparency of claims on reserves, the city has maintained at least 30% of operating expenditures across all available funds, which helps mitigate our view of the risk regarding the use of cash accounting. We understand that management does not expect to materially reduce reserves over the next two calendar years, and thus we expect budgetary flexibility to remain very strong in the near term.

### **Very strong liquidity**

In our opinion, Greenfield's liquidity is very strong, with total government available cash at 1.6x total governmental fund expenditures and 786.3x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

With the expectation of at least balanced operations in each of the next two fiscal years, we anticipate that the county's liquidity will remain very strong. Based on issuance of debt over the past 15 years, we believe that the issuer has strong access to capital markets to provide for liquidity needs, if necessary. We do not consider the city's use of investments to be aggressive as the majority are in liquid checking and savings accounts. The city maintains three privately placed agreements. The city's 2015 series A and 2015 series B bonds were privately placed with Greenfield Banking Company and were issued for \$5.8 million to refund a portion of the city's series 2004 waterworks revenue bonds for interest cost savings. The third series of bonds was issued in 2016 in the amount of \$1.995 million, of which \$1.95 million remains outstanding, for the construction of a splash pad and related improvement projects. The bonds

mature in January 2029 and were placed with First Internet Public Finance Corp. We recognize that the privately placed agreements contain no events of default or covenant violations that we deem nonstandard pursuant to our contingent liquidity criteria.

### **Strong debt and contingent liability profile**

In our view, Greenfield's debt and contingent liability profile is strong. Total governmental fund debt service is less than 1% of total governmental fund expenditures, and net direct debt is 32.3% of total governmental fund revenue.

We understand that the city does not currently have any plans to issue additional debt within the next two years.

The city contributes to two retirement plans administered by the state: 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 city continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was equal to 2.4% 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 city's required pension costs to increase significantly in the medium term.

The city does not provide other post-employment benefits.

### **Strong institutional framework**

The institutional framework score for Indiana municipalities is strong.

## **Outlook**

The stable outlook reflects our expectation that the city will maintain a very strong level of budgetary flexibility and liquidity. As such, we do not expect to change the rating during our two-year outlook horizon.

### **Downside scenario**

If significant capital spending or another budgetary pressure leads to a material decrease in the city's currently very strong level of available reserves, we could lower the rating.

### **Upside scenario**

We could raise the rating if the county's economic indicators improved significantly in conjunction with maintenance of a very strong level of available reserves, assuming no deterioration in other credit factors.

### **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
- 2017 Update Of Institutional Framework For U.S. Local Governments

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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