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Summary:

Tipton County, Indiana Tipton County Indiana Jail Building Corp.; General Obligation

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Summary:

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Credit Profile

US\$15.285 mil lse rental rev bnds ser 2018 due 01/15/2038

Long Term Rating

A+/Stable

New

Tipton Cnty Redev Dist, Indiana

Tipton Cnty, Indiana

Tipton Cnty Redev Dist (Tipton Cnty) GO (BAM)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Tipton County Jail Building Corp., Ind.'s series 2018 lease-rental revenue bonds, issued for Tipton County. At the same time, we affirmed our 'A+' rating on the Tipton County Redevelopment District's series 2014 tax-increment revenue refunding 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 2018 bond proceeds to construct a new county jail facility.

The 'A+' rating reflects our view of the following factors:

- Adequate economy, with projected per capita effective buying income (EBI) at 97.6% of the national level and market value per capita of \$94,814;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the combined 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 50% of operating expenditures;
- Very strong liquidity, with access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 12.0% of expenditures and net direct debt that is 161.8% of total governmental fund revenue; and
- Strong institutional framework score.

The series 2018 bonds are issued pursuant to a trust indenture between the jail building corporation and the trustee, and a lease between the jail 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 jail facility) presents construction risk. The bonds have been structured so that the first lease payments (July 2020) do not begin until ten months after estimated project completion (September 2019). Interest is capitalized through January 2020. In our view, there is a sufficient cushion in between lease payments and estimated project construction, so we consider construction risk mitigated.

The income tax pledged to the bonds is a special tax levied specifically for constructing and maintaining a county jail. There is no other debt secured by the income tax, and the additional bonds test is set at 1.25x. There is no debt service reserve fund. We rate the series 2018 bonds based on the ad valorem tax pledge, which we view as the stronger pledge.

The lease securing the series 2014 bonds is payable from tax-increment revenues (Chrysler allocation area) as well as ad valorem property taxes. Abatement risk is mitigated, and the financed project is completed. The pledge of ad valorem taxes is only applicable to the county's redevelopment district, however, which is not coterminous with the county. The district covers the entire county, except for the city of Tipton. The redevelopment district is not the same as the Chrysler allocation area. We base the rating on the ad valorem tax pledge, which we view as stronger than the tax-increment 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 pledges, as well as the noncoterminous tax base securing the series 2014 bonds, we still view both pledges as equivalent to our view of the district's general creditworthiness.

Adequate economy

We consider Tipton County's economy adequate, with a projected per capita EBI of 97.6% of the national level and per capita market value at \$94,814.

The county spans 260 square miles in north-central Indiana, about 40 miles north of Indianapolis. The city of Tipton serves as the seat and economic driver of the county. Countywide population is 15,044, with about one-third living in Tipton. Most of the land is used for farming, and most of the employment is manufacturing based. Fiat Chrysler opened a transmission plant in 2014, which now employs 937. Management tells us that the corporation is in the process of opening two new training centers, and that the current plant has significant capacity for expansion, which is indicative of its commitment to the area. IU Health is a leading employer with a staff of 250, and is currently constructing a new medical office building. The local school district employs 240, and there are a number of additional small manufacturing companies with staff in the 100-to-200 range. Countywide unemployment averaged 3.1% in 2017, and historically has remained below the state levels.

The tax base is stable, although net AV has come down slightly due to the state's phasing in of lower farmland assessments. Net AV declined a combined 0.7% over the last two years, to \$943.1 million for pay 2018. It is likely that growth in the tax base will offset additional farmland revaluations in the near term, however. In terms of net AV, the ten-largest taxpayers combine to account for 13.1% of the tax base. The largest taxpayer in the county is Chrysler, although its plant is in a tax-increment district, with \$85.7 million in incremental AV that is not included in net AV. It has only \$331,000 in base, or net AV that is taxed for the general operating budget. A wind farm is the largest taxpayer by net AV, at 2.8%. Estimated actual market value (gross AV less tax-exempt properties) is \$1.43 billion.

The redevelopment district's tax base, which excludes the city of Tipton and secures the series 2014 bonds, has a pay 2018 net AV of \$782.6 million and estimated market value of \$1.17 billion, both about 83% of the total figure for the county. Its market value per capita is \$117,075 and its top-ten taxpayers account for 15% of net AV. The population is 10,001. Tipton's incomes mirror those of the entire county.

Despite some tax base and employment growth, we do not anticipate an improvement in the economy assessment in the near future, as this growth is partly tempered by a longer term trend of population declines.

Strong budgetary performance

Tipton County's budgetary performance is strong, in our opinion, and has improved over our prior assessment of weak. The county had operating surpluses of 11.7% of expenditures in the adjusted general operating fund and 10.3% across all governmental funds (as adjusted) in fiscal 2017.

We combine the local income tax public safety fund (established in 2016) with the general fund, and, prior to 2017, we also combined the county adjusted gross income tax (CAGIT) fund with the general fund (this fund was merged with the general fund in 2017).

The county's budgetary position was pressured in recent years, evidenced by a series of deficits from 2013 to 2015, but performance has since been improving. This is due in part to increased revenues, and what management tells us are generally stricter spending controls and closer budget monitoring. In 2016, the county established a new public safety income tax, generating new revenues. It also recently repurposed an existing income tax which had been used for property tax relief, to instead be available for operations. Subsequently, combined general fund revenues have grown from \$5.4 million in 2015 to \$7.7 million in 2017 and this growth has exceeded expenditure growth.

Management projects another combined general fund surplus in 2018, though likely not as high as the 2017 operating surplus, which we have accounted for in our assessment. Property taxes account for 40% of combined general fund revenue, and income taxes another 37%. Circuit-breaker losses are minimal for the county, and the income taxes have generally been flat. In our view, expenditures pressures are minimal, as fixed costs are low and there are no long-term contractual obligations. We anticipate that the operating budget will remain balanced.

We note that 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 consider them reliable to serve as a basis of our analysis.

Very strong budgetary flexibility

Tipton County's budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2017 of 50% of operating expenditures, or \$3.5 million. The cash reserve includes \$2.5 million (35.5% of expenditures) in the combined general fund and \$995,000 (14.3%) that is outside the general fund but legally available for operations. These funds include the rainy day, economic development income tax, and cumulative capital development funds.

Weakening budgetary flexibility, in our view, is Tipton County's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

We expect that the combined general fund will remain stable, but that reserves in the nongeneral, available funds could decline slightly. However, we expect the total available reserve to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Very strong liquidity

In our opinion, Tipton County's liquidity is very strong, with total government available cash at 73.3% of total governmental fund adjusted expenditures and 6.1x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary, which is based on its recent history of issuing both tax-increment and ad valorem tax-secured debt. The county directly placed its series 2010 economic development revenue bonds, which are secured only by tax-increment revenues. It also has small equipment leases. We do not consider these obligations presenting contingent liability risk.

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.

To create the annual budget, management considers the last two years of historical trends, along with data from the department of local government finance and assistance from third-party professional consultants. The council reviews financial reports monthly, which include monthly cash balances, revenues, and expenditures for each fund. There is limited information, however, for comparing progress against the budget or prior year. There is a formal investment policy, and the portfolio is formally reviewed by the council just once a year. The county does not practice formalized long-term financial forecasting, nor is there a comprehensive, rolling capital improvement plan. It does maintain capital needs lists and other planning tools at the departmental level. The county does not have formalized debt or reserve policies, but it does target keeping a \$1 million cash reserve in the general fund, which it continues to meet.

Weak debt and contingent liability profile

In our view, Tipton County's debt and contingent liability profile is weak. Total governmental fund debt service is 12.0% of total governmental fund adjusted expenditures, and net direct debt is 161.8% of total governmental fund adjusted revenue. We calculate total direct debt at \$28.6 million. This includes the \$11.7 million tax-increment secured series 2010 bonds. These bonds mature in 2031 and do not have a set amortization schedule, which results in a slow debt amortization profile. However, in practice, the entirety of annual incremental revenues generated from the Chrysler tax-increment allocation area are used to pay down this debt (on a subordinate basis to the series 2014 bonds), and management estimates the debt to be entirely paid within the next ten years. Adjusting for this schedule, total debt amortization would be slightly above average. The series 2014 bonds mature in 2019. Additional debt plans

are limited.

The county has limited long-term pension pressures. It maintains two small, single-employer defined-benefit pension plans for its police. All civilian employees are part of a defined-contribution plan. The county continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was \$199,000, equal to 1.2% of total funds' expenditures. The police retirement plan is 79% funded and has a net pension liability of \$547,000, 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.

Strong institutional framework

The institutional framework score for Indiana counties is strong.

Outlook

The stable outlook reflects our expectation that Tipton County will maintain structurally balanced budgets, and thereby very strong budget flexibility and liquidity. This expectation is supported by the increased flexibility from the new and restructured income taxes, and limited fixed costs. Though it is not growing rapidly, the relatively stable local tax base also supports the outlook. We do not anticipate revising the rating within the two-year outlook period.

Upside scenario

The rating could be raised if the county more consistently produces balanced operating results, thereby further solidifying its very strong reserve position, holding steady for all other factors.

Downside scenario

The rating could be lowered if budgetary performance weakens and persists, which would likely subsequently lower available reserves. Deterioration in the tax and employment base could also lead to a lower rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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