

RatingsDirect®

Summary:

**Fountain County Building Corp.,
Indiana**

**Fountain County; General Obligation
Equivalent Security**

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Credit Profile

US\$14.47 mil lse rental bnds (Fountain Cnty) ser 2018 dtd 05/30/2018 due 01/15/2038

Long Term Rating

A+/Stable

New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Fountain County Building Corp., Ind.'s \$14.47 million series 2018 lease rental revenue bonds issued on behalf of Fountain County. The outlook is stable.

Officials will use bond proceeds to build a new jail facility. The 2018 bonds are secured and payable from a 0.55% special purpose local income tax (LIT). To the extent, the special purpose LIT revenues are insufficient, the bonds are payable from and secured by an ad valorem property tax levied against all taxable property in Fountain County. Special purpose LIT can only be used for the purposes of financing certain corrections facilities and related buildings, or the cost of additional projects described in the statute.

The 'A+' long-term rating is based on the ad valorem property tax pledge. The 2018 bonds are issued pursuant to a trust indenture between the county and the trustee, and a lease between the Fountain County Building Corp., as lessor, and Fountain County, as lessee. Lease rentals paid by the county directly to the trustee secure the bonds; rentals are payable from ad valorem taxes against all taxable property within the county's boundaries. The ad valorem property tax levy is not subject to annual appropriation under Indiana law. However, there is abatement risk, as the county 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 county to maintain at least two years of lease interruption insurance as well as casualty insurance equal to full replacement cost. In addition, there is construction risk given that lease payments depend on project completion. However, the bonds have been structured so that the first lease payments do not begin until 10 months after estimated completion; interest payments are capitalized through Jan. 15, 2020, and the construction is expected to be completed by August 2019. Considering the nature of the project, we feel this provides a reasonable cushion against possible delays and mitigates construction risk.

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 (AV). This can, and often does, reduce the total tax levy. The levy to cover debt service, however, is statutorily protected, allowing the county 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 district's general creditworthiness.

The 'A+' rating reflects the following credit characteristics of Fountain County:

- Very weak economy, with a concentrated employment base and significant population decline;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) 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 a high available cash reserve in fiscal 2017 of 184% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.5x total governmental fund expenditures and 237.2x governmental debt service;
- Strong debt and contingent liability profile, with debt service carrying charges at less than 1.0% of expenditures and net direct debt that is 116.7% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Very weak economy

Fountain County, with an estimated population of 16,505, is located in west central Indiana, approximately 35 miles southwest of Lafayette and 82 miles northwest of Indianapolis. We consider its economy very weak. The county has a projected per capita effective buying income of 91.0% of the national level and per capita market value of \$73,696.

Weakening Fountain County's economy are a concentrated employment base, with two single sectors (agriculture and manufacturing) accounting for the bulk of total county employment, and a significant population decline of negative 7%. Fountain County is largely rural--over 75% of its total tax base is agricultural land. The county's principal manufacturing employers are Flex-N-Gate (an auto parts grill manufacturer; 690 employees), Harrison Steel Casting Co. (304), and C&D Technologies Inc. (240).

Overall, the county's economy has been stable in recent years, in our opinion. The AV, however, has been dropping due to statewide phased-in reassessment of the agricultural land, which will continue through 2021. In the past two years, the county's AV dropped 3% and could continue to drop. The ongoing reductions will likely affect the county's tax base primarily by increasing the effects of the property tax caps (circuit breaker); the change will also likely shift the tax burden to other property owners from agricultural business owners.

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.

Even though our collective FMA scores on the county result in a standard FMA, we note that its practices are somewhat limited especially with regard to reserve goals and long-term financial forecasting.

Key practices include:

- Fountain County officials evaluate the previous year's budget and historical trends to project revenue and expenditure for the county's budget, and consult with various state entities.

- Management provides monthly cash flow reports to the council that track year-to-date and monthly revenue and expenditures, cash balances, and the percent of appropriations remaining. However, the reports do not explicitly compare budget-to-actual results.
- The county has its own investment policy and reports on investments to the council on a monthly basis.

The county does not maintain long-term financial and capital plans. It follows state guidelines on debt management but lacks a policy on reserves.

Strong budgetary performance

Our analysis relies on unaudited, Dec. 31 fiscal year-end cash reports that are submitted to the state. These reports prescribe to Indiana's uniform system of accounting and reporting that all local governments are required to follow. We include the county's local option income public safety tax (LOIT) and option tax certified (county adjusted gross income tax [CAGIT]) funds as part of the general fund since they primarily cover employee salaries and benefits. Beginning in 2017, the option tax certified fund was combined with the general fund under the state's reporting requirements.

Fountain County's budgetary performance is strong in our opinion. The county had operating surpluses of 40.0% of expenditures in the general fund and of 25.3% across all governmental funds in fiscal 2017. Fountain County reports that the largest single contributor to the recent surpluses is the new public safety income tax that the county started collecting in 2016. The county moved certain expenditures out of the general fund into different funds in 2017, but believes that some expenditures will be moved back into the general fund in 2018. We do not expect the operating surpluses to be that sizable. In our view, Fountain County's budgetary performance should remain strong during our two-year outlook horizon given the projections management supplied, which officials say are based on conservative assumptions. The general fund is projected to show 5% surplus in 2018. We expect total governmental fund performance to remain in line with the historical levels. In addition, Fountain County's two key revenue sources are projected to remain stable in the near future. Property taxes generate approximately 40% of the county's general fund revenue, while income taxes account for about 34%.

Very strong budgetary flexibility

Fountain County's budgetary flexibility is very strong, in our view, with a high available cash reserve in fiscal 2017 of 184% of operating expenditures, or \$8.9 million. The cash reserve includes \$6.5 million (134.2% of expenditures) in the general and available income tax funds and \$2.4 million (49% of expenditures) that is outside the general fund but legally available for operations. Negatively affecting budgetary flexibility, in our view, is Fountain County's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

The county's available reserves include reserves in the general, income tax, rainy-day, county economic development income tax, riverboat, cumulative capital improvement, and county farm funds. Official will use rainy-day fund reserves to finance a portion of this project, but then will reimburse the fund with the special purpose income tax. 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.

Very strong liquidity

In our opinion, Fountain County's liquidity is very strong, with total government available cash at 1.5x total governmental fund expenditures and 237.2x governmental debt service in 2017. In our view, the county has satisfactory access to external liquidity if necessary.

Management has confirmed that the county has no contingent liquidity risks from financial instruments with payment provisions that change upon certain events. Fountain County has not issued long-term debt in the past, so its access to capital markets is satisfactory. Considering the county's very manageable debt profile, we expect liquidity to remain very strong.

Strong debt and contingent liability profile

In our view, Fountain County'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 116.7% of total governmental fund revenue. Overall, net debt is low at 2.8% of market value, which is in our view a positive credit factor. The county does not have additional debt issuance plans at this time; however, the debt metrics will likely weaken following 2018 debt issuance.

The county contributes to two state-administered retirement plans: 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.

Fountain County continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was equal to 0.5% of total 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 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 county's required pension costs to increase significantly in the medium term.

Fountain County has an additional defined contribution program for its employees that it administers, which are offered through Mass Mutual and Hoosier START. The county does not offer other postemployment benefits except for benefits related to accrued vacation days.

Strong institutional framework

The institutional framework score for Indiana counties is strong.

Outlook

The stable outlook reflects our expectation that Fountain County's liquidity and budgetary flexibility will remain at least very strong in the near future. The trend of declining AV, in addition to growing debt costs, could eventually put a strain on the county's budget. However, considering the Fountain County's current financial position, we believe the county possesses adequate resources to sustain itself during periods of financial stress. Since the 'A+' long-term rating already integrates a certain degree of potential financial deterioration, we do not expect to change the rating in the next two years.

Downside scenario

If the county's financial flexibility starts to weaken, we could lower the rating.

Upside scenario

We could raise the rating if economic metrics improve and strategic developments and investments lead diversification in the local economy.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2017 Update Of Institutional Framework For U.S. Local Governments

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