S&P Global
Ratings

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Summary:
Warsaw, Indiana
Warsaw Redevelopment Authority; Appropriations; General Obligation; General Obligation Equivalent Security

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Summary:

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Credit Profile		
US$6.115 mil lse rental rev bnds (Warsaw) ser 2018 dtd 11/15/2018 due 02/01/2043		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Warsaw Redevelopment Authority, Ind.'s series 2018 lease-rental bonds issued on behalf of Warsaw. At the same time, we affirmed our 'AA-' long-term rating on existing property tax-supported debt issued on the city's behalf. The outlook on all ratings is stable.

The lease-rental bonds are issued pursuant to a trust indenture between the authority and the trustee, and a lease between the authority, as lessor, and the Warsaw Redevelopment Commission, as lessee. The bonds are secured by lease-rental payments paid by the commission, acting on behalf of the authority, directly to the trustee. Rent is payable a from special benefits tax (ad valorem taxes) against all taxable property within the city's redevelopment district, which is coterminous with the boundaries of the city. The bonds are also secured by a debt service reserve fund (DSRF), which is expected to be funded at maximum annual debt service (MADS), from the bond proceeds as well as cash on hand.

The levy of taxes to pay rentals is not subject to annual appropriation under Indiana law. However, lease payments are subject to abatement risk as the city is required to abate lease rentals if the leased premise is not available for use. However, abatement risk is mitigated, in our view, by a lease provision allowing for the substitution of a separate, in-use asset if part of the project area is damaged or destroyed. We also believe that construction risk is mitigated give this provision.

The tax pledge is subject to state circuit-breaker legislation, which places caps on the property tax burden for taxpayers based on a percentage of the real estate parcels' gross assessed value (AV). This can reduce the aggregate tax levy and often does. The levy to cover debt service, however, is statutorily protected, allowing the city to distribute circuit-breaker losses first across nondebt service funds that receive property taxes. We rate this debt at the same level as our view of the city's general creditworthiness given that we factor these limitations into our evaluation of the city's creditworthiness.

The proceeds from the bonds are expected to provide funds to finance acquisition and construction to expand the sanitary sewer system and road work.

The rating reflects our view of the city's:

- Weak economy, with a concentrated employment base;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2017, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with a high available cash reserve in fiscal 2017 of 98% of operating expenditures;
- Very strong liquidity, with total government available cash at 129.4% of total governmental fund expenditures and 17.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 7.3% of expenditures and net direct debt that is 60.0% of total governmental fund revenue; and
- Strong institutional framework score.

Weak economy

Warsaw, with an estimated population of 14,961, is the seat of northern Indiana's Kosciusko County and is approximately 50 miles southeast of South Bend and 40 miles west of Fort Wayne. It is the industrial and commercial center of Kosciusko County and home to a number of midsized-to-large medical device manufacturers.

The city has a projected per capita effective buying income of 100.2% of the national level and per capita market value of $89,380. Overall, market value grew by 1.1% over the past year to $1.3 billion in 2018. Weakening Warsaw's economy is a concentrated employment base, with a single sector accounting for more than 30% of total county employment. The county unemployment rate was 2.7% in 2017.

In our opinion, we consider Warsaw's economy weak primarily due to its concentrated employment and tax base. The medical device manufacturing presence accounts for the above-noted tax base concentration as well as the employment concentration, with 39% of total county employment in the manufacturing sector. It is our opinion that the concentration in Warsaw's tax base and countywide employment base puts the city at risk should economic activity in that single sector soften. Therefore, we consider this a limiting rating factor.

Top employers include: Zimmer Biomet (medical implant devices; 4,000 employees), Warsaw Community Schools (1,311), DePuy Inc. (orthopedic products; 1,100), LSC Communications (950), Kosciusko Community Hospital (822), and Tecomet (575). In addition, Zimmer Biomet was the top taxpayer for the 2017 tax year, with taxes payable in 2018; Zimmer accounted for 13.6% of the net AV. While we view the concentrated employment and tax base as a credit weakness, it is our opinion that the companies have remained stable and continue to support economic stability.

Adequate management

We view the city'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.

Highlights to the city's financial policies include: standard revenue and expenditure assumptions for annual budgeting; monthly reporting to the council on year-to-date revenues, disbursements, and cash balances by fund; monthly reporting to the council on investment holdings and earnings; and an informal reserve target of maintaining 20% of expenditures in general fund reserve. The city, along with its consultants, recently worked to develop a draft comprehensive financial plan that incorporates multiyear financial and capital planning. The financial plan forecast three years (current year plus two). It also includes a three-year capital plan that identifies capital needs, the costs, and sources of funds. We will continue to monitor to see if this plan becomes an embedded part of the city's budget process.

Adequate budgetary performance

For our analysis, we have combined the city's general and fire territory operating funds (as the latter supports basic government functions) to arrive at its general operating funds. We also made several adjustments to account for receipt and spend-down of bond proceeds.

The city operated with positive operating results over the past couple of years in its combined operating funds. The general fund, however, operated with a shortfall of about $437,000, or 4.4% in 2017. According to management, this was due to one-time matching of road expenditures. Nonetheless, we believe that future spending on capital and a potential increase in expenditures could reduce its operations, resulting in a possible shortfall or lower operating results. Furthermore, in previous years, the city had seen some budgetary pressures due to circuit-breaker losses which resulted in a reduction in its property tax levy. Therefore, our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2017 results in the near term, so we expect that the city's budgetary performance is likely to remain adequate.

Based on the most recent completed financial year, 2017, the city had operating surpluses of $571,000, or 4.2% of expenditures in the combined general operating fund and $1.3 million, or of 4.9% across all governmental funds in fiscal 2017. The positive performance in the general operating funds can be attributed to expenditures coming in lower as the city adjusted taxes in its park and recreation fund, thereby shifting some of its operating expenditures.

Warsaw's financial operations have demonstrated positive results over the past couple of years, which we understand was due to revenue increasing, coupled with lower expenditures. As for the general operating funds, it achieved its second operating surplus of $571,000, or 4.2% of expenditures since 2015. The overall total government funds positive results can be attributed to the strong revenue collections from the city's tax-increment allocation area.

According to the city, it is anticipating that the general fund is likely to achieve positive results in 2018 due to the receipt of supplemental local income tax distribution and expenditure reductions from the police and street departments. We understand that the fire territory fund could see a slight drawdown due to increased spending.

The city's 2019 general operating budget totals $17.5 million ($13.2 million general fund and $4.3 million fire territory fund). We understand that the budget will include increases in expenditures for capital spending.

Our analysis relies on unaudited, Dec. 31 fiscal year-end cash reports that are submitted to the state. These reports subscribe 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

Warsaw's budgetary flexibility is very strong, in our view, with a high available cash reserve in fiscal 2017 of 98% of operating expenditures, or $13.2 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 $7.7 million (56.8% of expenditures) in the general fund and $5.5 million (41%) that is outside the general fund but legally available for operations. Impairing budgetary flexibility, in our view, is Warsaw's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

In addition to the general operating funds, the city has additional cash reserves available in its rainy day, economic development income tax (EDIT), riverboat, and cumulative capital development funds. We believe that it is likely to maintain its high cash reserves. Moreover, the city's draft multiyear plan currently assumes a net increase across its operating fund well enough above 75% of expenditures to provide ample cushion such that we believe reserves will remain in excess of 75% through at least the two-year outlook horizon.

The city is not anticipating any significant reductions in its available cash reserves in fiscal 2018.

Very strong liquidity

In our opinion, Warsaw's liquidity is very strong, with total government available cash at 129.4% of total governmental fund expenditures and 17.7x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

Based on the city's record of frequent debt issuance of bonds with various security types, we believe it has strong access to external liquidity. Though state statutes are permissive in allowable investments, the city's investments are almost entirely in certificates of deposit, and accordingly, we do not believe it faces liquidity risk from aggressive investments.

The city is not party to any privately placed or direct-purchase agreements that would pose a risk to its finances or liquidity.

In our opinion, the city is likely to maintain its very strong liquidity given that it has not significantly spent down cash.

Strong debt and contingent liability profile

In our view, Warsaw's debt and contingent liability profile is strong. Total governmental fund debt service is 7.3% of total governmental fund expenditures, and net direct debt is 60.0% of total governmental fund revenue.

The city has about $37.1 million in outstanding debt, including $20.7 million in net utility-secured debt. According to management, future capital plans will primarily improve and expand its utility facility by expanding its capacity. However, it is our understanding that the city will use a state revolving loan in the amount of about $30 million.

Warsaw's pension contributions totaled 4.0% of total governmental fund expenditures in 2017. The city made 100% of its annual required pension contribution in 2017.

The city makes its annual required contributions to the Public Employees' Retirement Fund (PERF) and 1977 Police Officers' and Firefighters' Pension and Disability Fund, both cost-sharing multiple-employer defined-benefit pension plans. The city does not subsidize postretirement health care costs for its retirees.

As of June 30, 2017, the PERF was 76.6% funded and '77 Fund was 100.3% funded, in accordance with Governmental Accounting Standards Board Statement No. 67 and 68. The plans use a discount rate of 6.75%.

Strong institutional framework

The institutional framework score for Indiana municipalities is strong.

Outlook

The stable outlook reflects our view that Warsaw will maintain its very strong budgetary flexibility and will continue to produce at least adequate budgetary performance. Therefore, we do expect to change the rating within the next two years.

Downside scenario

If the city's budgetary performance weakens or its large nominal cash balance is compromised, we could consider a lower rating.

Upside scenario

We could consider a higher rating with proof of sustainable improvement and diversification in the economy, paired with at least a stable financial position.

Ratings Detail (As Of November 6, 2018)		
Warsaw GO bnds		
Long Term Rating	AA-/Stable	Affirmed
Warsaw Redevelopment District, Indiana		
Warsaw, Indiana		
Warsaw Redev Dist (Warsaw)		
Long Term Rating	AA-/Stable	Affirmed
Warsaw Redev Auth, Indiana		
Warsaw, Indiana		
Warsaw Redev Auth (Warsaw)		
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.