

# RatingsDirect®

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## Summary:

### Crawfordsville Fire Station Two Building Corporation, Indiana Crawfordsville; Appropriations

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### Credit Profile

US\$4.71 mil ad valorem prop tax lse rent bnds (Crawfordsville) ser 2016 due 01/15/2036

*Long Term Rating*

AA-/Stable

New

## Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Crawfordsville Fire Station Two Building Corp., Ind.'s series 2016 ad valorem property tax lease rental bonds, issued on behalf of the city of Crawfordsville. The outlook is stable.

The series 2016 bonds are secured by lease rental payments from the lessee (Crawfordsville) to the lessor (Crawfordsville Station Two Building Corp.) pursuant to a lease agreement. The lease rentals are paid directly to an independent trustee and are payable from ad valorem property taxes on all taxable property throughout the city.

The lease payments are mandatory and not subject to annual appropriation. The property tax levy ultimately securing the bonds is subject to Indiana's circuit breaker legislation--which limits individual tax liability to a specified percentage of a property's gross assessed value (AV)--though debt service is a statutorily protected levy, with any losses due to the circuit breaker required to first be distributed across non-debt service levies. The lease payments are subject to abatement if the leased property becomes damaged or destroyed, though abatement risk is mitigated, in our view, by lease provision requiring the district to maintain property casualty and two years of business interruption insurance.

The series 2016 bonds are being issued to build a new fire station in the city.

The rating reflects the following credit characteristics of the city:

- Weak economy, with market value per capita of \$56,953 and projected per capita effective buying income at 72.3% of the national level;
- Adequate management, with "standard" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2015 of 70% of operating expenditures;
- Very strong liquidity, with total government available cash at 132.7% of total governmental fund expenditures, 95.3x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 1.4% of expenditures and net direct debt that is 71.3% of total governmental fund revenue, as well as rapid amortization, with 72.2% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

### **Weak economy**

We consider Crawfordsville's economy weak. The city, with an estimated population of 16,206, is located in Montgomery County. The city has a projected per capita effective buying income of 72.3% of the national level and per capita market value of \$56,953. Overall, the city's market value grew by 4.2% over the past year to \$923.0 million in 2016. The county unemployment rate was 4.0% in 2015.

The city is located approximately 45 miles northwest of Indianapolis and 25 miles south of Lafayette. Major employers in the city include commercial printer R.R. Donnelly (1,200 employees), steel manufacturer Nucor (750 employees), and light fixture manufacturer Acuity (530 employees). The city is also home to Wabash College, which has approximately 870 students. The city has no significant tax appeals currently pending.

### **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.

In developing its budget, the city examines three years of historical data for its expenses and consults with the state of Indiana regarding nonfarm growth. The city also provides monthly budget-to-actual reports to its council. The city does not currently maintain a long-term capital or long-term financial forecast. The city follows state guidelines regarding investment management. The city does not currently have a debt management policy. The city maintains a fund balance target of 20% of expenditures.

### **Adequate budgetary performance**

Crawfordsville's budgetary performance is adequate in our opinion. The city had deficit operating results in the general fund of negative 3.9% of expenditures, but a surplus result across all governmental funds of 6.3% in fiscal 2015.

The city's budgetary performance reflects adjustments made for one-time revenues and expenditures. In fiscal 2015, the general fund received 52% of its revenue from property taxes and 25% from the county option income tax (COIT). With regard to fiscal 2016, we understand the city is on target with its general fund budget, which calls for a break-even result. We do not anticipate the city's budgetary performance score to weaken from its currently adequate level.

### **Very strong budgetary flexibility**

Crawfordsville's budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2015 of 70% of operating expenditures, or \$6.5 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 \$5.4 million (58.3% of expenditures) in the general fund and \$1.1 million (12.1% of expenditures) that is outside the general fund but legally available for operations. Negatively affecting budgetary flexibility, in our view, is Crawfordsville's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

The city's non-general available fund balance includes its rainy day fund., which is legally available for operations. We do not expect the city's very strong budgetary flexibility assessment to weaken in the near term, as the city does not expect to draw from its reserves in the few years.

### **Very strong liquidity**

In our opinion, Crawfordsville's liquidity is very strong, with total government available cash at 132.7% of total governmental fund expenditures and 95.3x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We consider the city's access to external liquidity to be strong, as it has regularly issued lease rental bonds during the past 15 years. We view the city's investments profile to not be aggressive, as it primarily invests in government securities. The city's liquidity position is unlikely to weaken during the next few years, in our view.

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

In our view, Crawfordsville's debt and contingent liability profile is strong. Total governmental fund debt service is 1.4% of total governmental fund expenditures, and net direct debt is 71.3% of total governmental fund revenue. Approximately 72.2% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city may issue \$12 million in revenue debt within the next few years.

Crawfordsville's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 10.0% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

The city participates in the Public Employees Retirement Fund (PERF), an agent multiple-employer retirement system. In addition, it participates in the 1977 Police Officers and Firefighters' Pension and Disability Plan, a cost-sharing multiple-employer defined benefit pension plan. The PERF plan and the 1977 Police Officers and Firefighters' Pension and Disability Plan are 80% and 95% funded, respectively.

### **Strong institutional framework**

The institutional framework score for Indiana municipalities is strong.

## **Outlook**

The stable outlook reflects our view that the county will maintain very strong budgetary flexibility, with an available fund balance that is well above 30% of expenditures. In addition, the county's strong debt and contingent liability position supports the stable outlook. We do not anticipate changing the rating within the two-year outlook horizon.

### **Upside scenario**

Should the city's economy improve significantly, a higher rating is possible.

### **Downside scenario**

If the city's market value per capita or per capita effective buying income were to weaken, a lower rating is possible. Further, if one of the city's major employers or taxpayers were to vacate the city, coupled with a decline in reserves, we could lower the rating. In addition, if the city's budgetary performance and debt and contingent liability profile were to weaken, the rating could be lowered.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2015 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.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the 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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