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Sent: Monday, January 12, 2015 11:58 AM
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Subject: Standard & Poors Central Bus Dist TIF bond rating
Attachments: Terre Haute .pdf

Importance: High

Mr. President & members of the council:

Please see attached the communication from the Chicago office of Standard & Poors bond rating service. As I mentioned to you last week, I was assured by the representative that our rating remained strong. As we go forward with bonding of projects within the downtown TIF dist this Spring, I wanted you to have assurance that the RDC & the district continues to enjoy a healthy bond rating report.

Cliff

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STANDARD & POOR'S
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Summary:
Terre Haute Redevelopment District, Indiana Terre Haute; Tax Increment

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Summary:

Terre Haute Redevelopment District, Indiana Terre Haute; Tax Increment

Credit Profile		
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Terre Haute, Indiana		
Terre Haute Redevelopment District (Terre Haute) tax incre rev bnds		
Long Term Rating	A-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'A-' rating on Terre Haute Redevelopment District, Ind.'s series 2011A redevelopment district tax-increment revenue bonds, issued for Terre Haute. The outlook is stable.

The rating reflects our view of the district's:

- Well-developed redevelopment area, formed in 1986 in a diverse downtown area;
- Indiana's neutralization process that allows for a reduction in base assessed valuation (AV) to mitigate magnified changes in tax-increment revenue due to changes in AV;
- Strong debt service coverage (DSC) from tax-increment revenue; and
- Strong 1.75x additional bonds test (ABT) and a debt service reserve (DSR).

We believe our opinion of the district's highly concentrated leading taxpayers, with the 10 leading taxpayers representing approximately 65% of 2014 incremental AV, somewhat offsets these strengths.

Terre Haute, with a 2010 population of 61,504, is in Vigo County in west-central Indiana. Income levels, measured by median household effective buying income, are, in our opinion, a low 67% of the 2014 national average. The city hosts an array of industries, including health care, education, and manufacturing. Indiana State University, adjacent to the tax-increment finance (TIF) district, anchors the local economy. The TIF district, formed in 1986, consists of 223 acres in the city's downtown area; it is about 90% developed. The TIF district consists predominantly of commercial property and officials indicate there are residential and mixed-use developments underway totaling about $35 million.

Property taxes on incremental AV increases for property within the central business district urban renewal area secure debt service payments on the bonds. Along with the 2011A bonds in 2011, the district also issued series B bonds with a total par value of $5.4 million. The district fully repaid the principal outstanding on the series B bonds in May 2012 and the 2011A bonds are now the only parity bonds outstanding secured by the senior lien of the district's revenues from the redevelopment area. However, management is currently considering the issuance of additional debt payable solely from the incremental revenue for the funding of two projects in the district.

Incremental AV is determined by subtracting the base net AV from the current net AV as of the assessment dates. The incremental AV is then multiplied by the current property tax rate to determine the tax increment. Property assessments are revalued annually to reflect sales data, changes in economic activity, and inflationary adjustments. With the approval of the Indiana Department of Local Government Finance, the base net AV of a district may be reduced to neutralize the effects of reassessments within tax-increment districts, so that growth in tax increment depends on new construction instead of inflationary changes in value or reassessments. The neutralization legislation could potentially mitigate the effects of decreases in assessments on property, if used. Accordingly, we consider the effects of the district's tax volatility ratio, calculated as base AV divided by total district AV (a measure of how sensitive tax-increment revenues are to changes in AV) of 0.29 to be moderated by the neutralization process, which, in our view, enhances credit quality.

According to the bond resolution's legal provisions, all tax-increment revenue will flow into an allocation fund to be transferred into a sinking fund at a sufficient amount to pay debt service. Any revenue not required for principal and interest will flow to the DSR, if necessary. If officials use the DSR to make debt service payments, they will replenish the funds from the next available tax increment not used to pay current debt service. The DSR funding level requirement and replenishment feature alleviates timing risks associated with delayed tax-increment distributions. The bond resolution permits tax-increment revenue to secure additional parity bonds. Tax-increment revenue received in each succeeding year, based on actual AV or on AV scheduled to be assessed on the assessment date before the additional bonds' issuance, must provide at least 1.75x annual coverage on all parity obligations.

Due to reassessments in 2013, the area's AV has declined since 2011 by about 12.5% to $74.1 million in 2014. However, due to neutralization of the area's base year, the incremental AV has remained relatively flat at $54.7 million in 2014. A tax-increment collection has slightly fluctuated since 2009, partly due to circuit-breaker tax credit implications. Tax-increment distributions totaled $1.45 million in 2013, which provided a strong maximum annual debt service (MADS) coverage of 12x and annual DSC of 12.4x. Debt service is expected to remain relatively flat, with MADS occurring in 2017. The MADs coverage has significantly improved since the repayment of the series 2011B bonds. However, considering management's planned issuance of additional debt, it is our view that the current MADS coverage is unlikely be sustained in the medium term. Officials expect tax-increment collections to total $1.64 million in 2014. We understand tax collections has ranged from 97%-102% since 2008. The current tax rate at 4.122 has increased 17% from 2011 rates. Vigo County officials indicate no significant tax appeals have been filed.

The district's property tax base is concentrated. The leading and 10 leading taxpayers account for 11% and 65%, respectively, of incremental revenue. The five leading taxpayers alone account for 41% of incremental AV. Elevated taxpayer concentration limits the district's ability to withstand losses in its tax base despite Indiana's neutralization statute. While the total amount of future debt that could be issued by district is currently unknown, the district can issue enough debt to reduce parity coverage to 1.75x. If bonded to the permitted ABT of 1.75x MADS, the district can only withstand the loss of 42% of AV and still maintain 1x coverage. A 42% drop in total net AV is equivalent to slightly less than the top 10 taxpayers but with a 42% drop in incremental AV at ABT without neutralization, the district would only withstand the loss of the top five taxpayers.

Outlook

The stable outlook reflects Standard & Poor's view that coverage will likely remain at strong levels despite additional debt plans within the two-year horizon, given the TIF district's mature and well-developed tax base. The rating could be pressured if the district undergoes significant tax-increment coverage stress, resulting from unsteady tax collections, in particular from its 10 leading taxpayers. However, if the district shows continued ability to maintain very strong coverage after issuance of future debt, we could raise the rating. The existence of the ABT, DSR, and replenishment requirements provides additional rating stability.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special-Purpose Districts, June 14, 2007

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.