

Speedway Redevelopment Authority Speedway, Indiana

Credit Profile

US\$13.64 mil lse rental rev bnds of 2009 (Speedway) ser A-1 due 02/01/2034

Long Term Rating

A+/Stable
New

US\$1.455 mil taxable lse rental rev bnds of 2009 (Speedway) ser A-2 due 02/01/2011-2034

Long Term Rating

A+/Stable
New

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Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to the town of Speedway, Ind.'s series 2009A-1 lease rental revenue bonds and series 2009A-2 **taxable lease rental revenue bonds, issued for Speedway Redevelopment Authority.**

The rating reflects our opinion of the town's:

- Deep and diverse economy, which has exhibited stability and consistent growth;
- Good reserve levels on a cash basis of accounting; and
- Low overall debt burden with rapid amortization.

These strengths are constrained by the town's adequate income and wealth indicators.

The town plans to use tax-increment revenues to pay debt service on the bonds, although the series 2009 bonds are secured by a special-benefits tax (an ad valorem property tax) to be levied on taxable property within the Speedway Redevelopment District, subject to the circuit breaker legislation. Recent legislation requires debt service to be fully funded regardless of any impact on property taxes from the circuit breaker. Series 2009 bond proceeds will fund the refunding of outstanding bond anticipation notes, the acquisition of right-of-way for and construction of all or a portion of road and street improvements for certain roads and streets in the town, pay capitalized interest through Aug. 1, 2010, fund a debt service reserve, and pay bond issuance costs. The debt service reserve fund will be funded at maximum annual debt service.

Under the terms of the lease, lease rental payments are subject to abatement. In the event the property is damaged, destroyed, or taken under a provision of eminent domain such that use or occupancy is not possible, the town of Speedway, is prohibited from making payments under the lease as per state statute. Partial abatement also applies, so that in the event a portion of the street or improvements is not available for use, only partial payments can be

made. According to Standard & Poor's lease criteria, there are usually 24 months of business-interruption insurance to mitigate abatement risk. While no business interruption insurance is provided under the town's lease, there is a fully funded debt service reserve fund, which provides the town with a full year of lease rental payments in the event that leased premises are unavailable for use. Given the nature of the financed assets, which are street improvements and a gateway, we would expect reconstruction or repair of such assets to be completed in a relatively short-term period, as opposed to a building or other structure, given the lack of complexity.

The town of Speedway is home to the Indianapolis Motor Speedway (IMS). The IMS attracts well more than a million visitors a year to experience world class racing events, notably the Indianapolis 500 and the Brickyard 400. The town, which covers a total area of 4.8 square miles is located 4 miles northwest of downtown Indianapolis. Despite being surrounded on all sides by the city of Indianapolis, the town is a separate governmental unit within the city with its own town council, police department, fire department, street department, parks and recreation department, water and wastewater utilities, school system, and public library.

Residents have access to the greater Indianapolis economic area through the city's large transportation network, which includes extensive highway and rail access; its average cost of living and affordability; and its tax base's maturity and diversity—all of which make Indianapolis a desirable location for investment. Speedway's population growth has recently stabilized, with the estimated 2008 population at roughly 12,284. The town's 2008 per capita effective buying income was \$19,408, which was, in our opinion, an adequate 102.7% of the state level and 93.7% of the national level. Median household effective buying income in 2008 was \$34,481, or what we consider an adequate 87.3% of the state level and 82.5% of the national level. Marion County unemployment through July 2009 was 9.5%, below the state average of 10.4% and on par with the national average. The town's assessed value in 2008 was \$658 million, equating to \$53,603 per capita.

As a result of technical concerns related to "trending" or the annual review of real property assessments to reflect market value based on comparable sales data, the governor ordered a reassessment of all property valuations in the county for taxes payable in 2007. The reassessment caused tax collections to be delayed in 2007 and in 2008. In response, the town used internal liquidity in the form of temporary loans for cash flow purposes. Property tax bills for the first installment of payable 2008 taxes were sent in late November 2008 with a due date of mid-December. The town recently received distribution of its second installment of pay 2008 taxes.

In fiscal 2008 (Dec. 31), on a cash basis, the town's total general fund balance increased by \$178,000, to end the year with an unreserved general fund balance of \$977,000 or 9.3% of expenditures. This figure underestimates the town's overall general fund liquidity as all fiscal 2008 property tax receipts were not received within the fiscal year. The town received the second distribution of payable 2008 taxes, which totaled roughly \$1.9 million, in August of 2009. Since all interfund borrowing issued for fiscal 2008 was repaid within the fiscal year, the total value of the ending general fund balance for fiscal 2008 and the second distribution of payable 2008 taxes, together approximately \$2.877 million, represents a proxy for general fund liquidity under the assumption that all property tax receipts had been received on time. The \$2.877 million represents 27.4% of fiscal 2008 expenditures. Management expects to end the fiscal 2009 year with reserves in the 20% of expenditure range. Property tax bills in Marion County for 2009 have not gone out. The town has issued a \$1.3 million

interfund loan to the general fund for fiscal 2009, which is nearly half of what it had issued during fiscal 2008. Management attributes this to improved liquidity and close monitoring of expenditures.

Standard & Poor's considers Speedway's management practices "standard" under its Financial Management Assessment (FMA), indicating that the finance department maintains adequate policies in some, but not all, key areas. Town management reviews revenues and expenditures monthly and makes monthly budget reports to the town council. The town follows the investment policy of the state of Indiana, while monitoring and reporting earnings and holdings monthly. Management maintains an informal general fund reserve policy of at least 15% of operating expenditures.

The town's overall net debt burden is low at \$1,512 per capita and 2.8% of market value. The town currently does not have immediate future debt plans.

Outlook

The stable outlook reflects Standard & Poor's expectation that the town will continue to take the necessary steps to maintain balanced operations and at least adequate reserve levels. The depth and diversity of the Indianapolis economic base also lends stability to the rating.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Appropriation-Backed Obligations," June 13, 2007

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