

RatingsDirect®

Summary:

Zionsville, Indiana; General Obligation; General Obligation Equivalent Security

Primary Credit Analyst:

Diana Cooke, Chicago +1 3122337052; diana.cooke@spglobal.com

Secondary Contact:

Scott D Garrigan, New York + 1 (312) 233 7014; scott.garrigan@spglobal.com

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Zionsville GO

Long Term Rating

AA/Stable

Outlook Revised

Zionsville Redevelopment Authority, Indiana

Zionsville, Indiana

Zionsville Redev Auth (Zionsville) econ dev lse rental rev bnds (Zionsville) ser 2012 dtd 12/07/2012 due 02/01/2025 & 08/01/2015-2023

Long Term Rating

AA/Stable

Outlook Revised

Credit Highlights

- S&P Global Ratings revised the outlook to stable from negative and affirmed its 'AA' rating on Zionsville, Ind.'s property tax-secured bonds outstanding.
- The outlook revision reflects our view of reduced governance risks, as evidenced by the town's improved internal controls and financial oversight.
- The rating is based on the application of our "Methodology For Rating U.S. Governments," published Sept. 9, 2024.

Security

The town's general obligation (GO) and lease-backed debt are secured by ad valorem property taxes, subject to tax caps that cap the property tax burden for taxpayers based on a percentage of the real estate parcels' gross assessed value. We base the rating on all debt on our view of town's general creditworthiness, reflecting our view that lease risks (where applicable) are mitigated and that there are no significant limitations on the fungibility of resources.

Credit overview

The 'AA' rating reflects our view of Zionsville's expanding economy, which continues to support balanced operations and robust cash reserves. The outlook revision reflects our view of the town's improved internal controls and financial oversight, which are largely the result of the implementation of new financial software, the creation of a new position to oversee monthly bank reconciliations and engagement uploads to the Indiana Gateway, and the assistance of a third-party financial advisor to revise internal policies and ensure compliance going forward.

Zionsville's 2021 audit identified several internal control findings that were largely due to a combination of insufficient staffing, the implementation of an accounting software that was unable to subscribe to state financial reporting and, to a lesser extent, internal disputes between management and council. As a result, the town failed to upload monthly bank reconciliations, properly approve and document disbursements, or upload monthly and annual engagement uploads in accordance with state statute. Zionsville's 2022-23 audit also contained findings, though a reduced amount, and most pertain to activity in 2022 and early 2023. By the end of 2023, the town was able to perform timely

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reconciliation of all accounts and upload monthly statements to Indiana Gateway. There were no findings pertaining to disbursements. While the town did not upload required annual files to the Indiana Gateway in 2022 or 2023, a new position was created in November 2023 whose sole responsibility is the monthly/annual engagement uploads to the Gateway. We expect minimal internal control findings in future audits.

The rating further reflects our view of the following:

- Rapidly growing and diversified economy located in the northwestern portion of the Indianapolis metropolitan area, with very strong local resident income levels. The town's population has more than doubled over the past decade, with 32,000 residents as of 2023. Growth is also reflected in the 12.1% average annual increase in the tax base over the past four years. We expect these growth trends to continue, as Zionsville has a significant amount of land that is prime for development.
- Consistently balanced operating results, reflecting historical growth in property and income tax revenues, that have enabled it to continue to add to already robust cash reserves. Our analysis includes the town's general, fire, police, rainy day, and public safety local income tax funds. Town management projects another surplus in calendar year 2024 of roughly \$2.0 million, or 6% of general fund revenues. Beginning in 2025, the town will make planned draws on reserves to fund capital projects, as current levels exceed its newly implemented reserve target of 15%-20% compared to disbursements. Based on its five-year financial forecast, the town is planning to spend down roughly \$1.4 million in 2025 and \$3.0 million in 2026. If these plans go forward, available reserves in 2026 will fall to roughly \$16.9 million, or 48% of operating revenues.
- Our improved view of management is based on its implementation of various internal controls, creation of a new position to ensure compliance going forward, and adoption of multiple policies over the past two years. Notably, the town recently implemented a long-term capital and financial plan to assist in budget development and the strategic spending of reserves on capital projects. It plans to update this document annually. In addition, over the past year, the management team adopted an internal control, investment, debt management, and reserve policy.
- Moderate debt burden, with roughly \$69 million in net direct debt, though this includes \$34 million in economic development bonds supported solely by tax increment financing revenues. Combined debt and pension costs account for less than 10% of expenses. The town has no plans to issue debt over the two-year horizon, and is instead cash-funding its key capital projects. Its pension and other postemployment benefit liability are not a significant credit pressure.
- Financial transparency for municipalities in Indiana is very weak, as highlighted by the use of cash accounting and limited disclosures in financial reporting. Our analysis relies on a mix of Dec. 31 year-end, unaudited cash reports submitted to and reviewed by the state as well as subsequent cash audits performed by the state board of accounts. We believe that weak transparency leaves more room for interpretation and reduces the comparability of financial statements across governments. For more information on our institutional framework assessment for Indiana municipalities, see "Institutional Framework Assessment: Indiana Local Governments," published Sept. 9, 2024 on RatingsDirect.

Environmental, social, and governance

Although our view of risk management, culture, and oversight has improved, Zionsville's recent history of significant internal control findings and transparency concerns presents some uncertainty, in our opinion, given the new team's lack of a track record. Accordingly, we still view governance risks as slightly elevated. We will continue to monitor audit findings and will make the necessary adjustments. We view social and environmental factor as neutral in our

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credit rating analysis.

Outlook

The stable outlook reflects the town's growing economy, which will continue to support balanced operations and robust cash reserves despite drawdown plans over the rating horizon. It also reflects our improved view of the town's internal controls and financial oversight.

Downside scenario

We could lower the rating if the governance risks pertaining to the town's internal controls and financial oversight re-emerge and if future audits do not show reduced findings. We could also lower the rating if budgetary pressures emerge or if the town's plans to spend reserves on capital projects result in cash balances no longer consistent with those of 'AA' peers.

Upside scenario

Though we view a higher rating as unlikely given the town's plans to draw down reserves, it would require multiple years of improved financial transparency and a demonstrated track record of adherence to internal controls, with limited audit findings. A higher rating would also require economic and financial metrics to remain consistent with current levels.

Table 1

Zionsville, Indiana--Credit summary	
Institutional framework (IF)	3
Individual credit profile (ICP)	1.80
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	3.00
Debt and liabilities	2.00

Table 2

Zionsville, Indiana--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	--	--	87	89
County PCPI % of U.S.	--	--	139	133
Market value (\$000s)	--	6,519,921	5,492,679	5,054,183
Market value per capita (\$)	--	203,741	171,394	159,383
Top 10 taxpayers % of taxable value	--	4.9	5.4	5.3
County unemployment rate (%)	--	2.5	2.1	3.7
Local median household EBI % of U.S.	--	158	165	181
Local per capita EBI % of U.S.	--	166	172	176
Local population	--	32,001	32,047	31,711

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Table 2

Zionsville, Indiana--Key credit metrics (cont.)				
Financial performance				
Operating fund revenues (\$000s)	--	29,753	26,382	23,692
Operating fund expenditures (\$000s)	--	26,291	24,373	23,736
Net transfers and other adjustments (\$000s)	--	(43)	201	(734)
Operating result (\$000s)	--	3,419	2,210	(778)
Operating result % of revenues	--	11.5	8.4	(3.3)
Operating result three-year average %	--	5.5	4.6	4.3
Reserves and liquidity				
Available reserves % of operating revenues	--	65.1	60.5	58.0
Available reserves (\$000s)	--	19,378	15,959	13,749
Debt and liabilities				
Debt service cost % of revenues	--	4.4	5.4	5.6
Net direct debt per capita (\$)	2,161	1,892	1,803	1,212
Net direct debt (\$000s)	69,163	60,556	57,781	38,441
Direct debt 10-year amortization (%)	46	--	--	--
Pension and OPEB cost % of revenues	--	4.0	3.0	4.0
NPLs per capita (\$)	--	344	230	37
Combined NPLs (\$000s)	--	11,000	7,386	1,159

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

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