

RatingsDirect®

Summary:

**Washington Township School Building Corp. (Marion County), Indiana
Washington Township Metropolitan School District; School State Program**

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Credit Profile

US\$35.23 mil unlt'd ad valorem prop tax 1st mtg bnds (Washington Twp Metro Sch Dist) ser 2018 due 01/15/2038

<i>Long Term Rating</i>	AA+/Stable	New
<i>Underlying Rating for Credit Program</i>	AA-/Stable	New

Washington Twp Metro Sch Dist GO bnds

<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term program rating and 'AA-' underlying rating to Washington Township School Building Corp., Ind.'s series 2018 unlimited ad valorem property tax first mortgage bonds, issued on behalf of Washington Township Metropolitan School District. At the same time, S&P Global Ratings affirmed its 'AA+' long-term program rating and 'AA-' underlying rating on the school corporation's existing limited-tax and unlimited-tax debt. The outlook on all ratings is stable.

The 'AA+' rating is based on our state credit enhancement criteria, and reflects our assessment of the strength of the Indiana state aid intercept structure (as found in Section 20-48-1-11 of the Indiana Code). All school corporations can benefit from this statute without specific state qualification. However, in the absence of certain state aid coverage levels and bond terms, the statute may not provide sufficiently strong support in increasing the likelihood of payment in full and on time. For these reasons, we review state aid coverage and bond terms (see the report on Indiana School Corp., published May 16, 2017, on RatingsDirect).

Annual state aid appropriated and allocated for distribution during the state's fiscal year covers maximum annual debt service coverage by at least 2x, and appropriated but not yet distributed state aid covers maximum semiannual debt service by at least 1x. The bond terms require the school corporation to transfer payments to an independent trustee, registrar, or paying agent at least five business days in advance of the debt service due dates, and this third party has immediate notification and claimant responsibilities to the state treasurer, in the event a debt service transfer is not made on time or is insufficient. On notification, the treasurer will advance to the claimant any state aid that has been appropriated for allocation but not yet distributed, up to an amount of the debt service shortfall.

The 'AA-' underlying rating reflects our view of the school corporation's:

- Participation in the Indianapolis metropolitan statistical area economy and very strong per capita market value (gross assessed value [AV]);
- Stable enrollment, which lends additional stability to district finances;
- Strong operating reserves in the general, referendum, and "rainy day" funds; and
- Low to moderate overall debt burden.

Partially offsetting the above strengths, in our view, are the school corporation's income indicators, which, while at levels that we consider good to strong, are not consistent with those of higher-rated peers and the school corporation's expectation of issuing a significant amount of voter-approved debt over the next five to seven years.

The 'AA-' underlying rating is based on the ad valorem property tax pledge. The 2018 unlimited ad valorem property tax first mortgage bonds are issued pursuant to a trust indenture between the school building corporation and the trustee, and a lease between the building corporation, as lessor, and the school corporation as lessee. Lease rentals paid by the school corporation directly to the trustee secure the bonds. Rentals are payable from ad valorem taxes against all taxable property within the school corporation's boundaries. The 2018 bonds are the second series being used to fund a portion of the \$185 million construction project referendum that was approved by voters in November 2016. The referendum was approved for various school building construction and improvement projects, with the series 2018 bonds being used toward the remaining costs associated with the construction of two new elementary schools.

The ad valorem property tax levy is not subject to annual appropriation under Indiana law. However, there is abatement risk, as the school corporation is required to abate lease rentals in the event the leased premises are not available for use. This risk is mitigated, in our view, by the lease requiring the school corporation to maintain at least two years of lease interruption insurance as well as casualty insurance equal to full replacement cost. Additionally, there is construction risk given that lease payments will be dependent on project completion. However, the lease permits interim lease rentals to be paid until the project is completed, which meet or exceed debt service requirements. In our view, this mitigates the construction risk as debt service payments would not be disrupted by construction delays.

The school corporation's series 2018 unlimited ad valorem property tax first mortgage bonds are voter approved and, as a result, not subject to state circuit-breaker legislation. The ad valorem property tax pledge that secures the school corporation's outstanding non-voted bonds is subject to state circuit-breaker legislation, which caps the property tax burden for taxpayers based on a percentage of the real estate parcels' gross AV. This can, and often does, reduce the total tax levy. The levy to cover debt service, however, is statutorily protected, allowing the school corporation to distribute circuit-breaker losses first across non-debt service funds that receive property taxes. We rate the debt at the same level as our view of the school corporation's general creditworthiness.

Economy

Washington Township Metropolitan School District serves an estimated population of 90,424. In our opinion, median household effective buying income (EBI) is good at 91% of the national level, but per capita EBI is strong at 117%. The corporation's total \$8.6 billion gross AV in 2018 is very strong, in our view, at \$95,376 per capita. Net AV grew by a

total of 5.1% since 2016 to \$6.1 billion in 2018. Roughly 10.3% of net AV comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

The school corporation is located in Marion County, in the north-central portion of the city of Indianapolis and approximately nine miles north of downtown. Residents benefit from the employment opportunities afforded by their participation in the Indianapolis economy. The corporation's AV has increased in recent years, and management expects slight to stable increases to continue as a result of ongoing development, primarily residential, as well as ongoing redevelopment, which we view as likely.

Finances

General fund operations of Indiana school corporations rely almost entirely on state tuition support, which is determined on a per-pupil basis. As a result, operating revenue is very sensitive to enrollment fluctuations. Enrollment has grown overall since 2014, increasing to 11,241 students for the 2018 year. State aid accounted for 91.4% of general fund revenue in 2017.

The school corporation's enrollment had increased overall in recent years, and while we recognize that slight fluctuations in enrollment are likely between years, management expects at least stable trends to continue over the next two years, which we view as likely. The corporation attributes its overall enrollment growth in recent years to its stable resident base and an increase in out-of-district students who have transferred to the corporation. The school corporation utilizes a demographic study when projecting enrollments and utilizes conservative enrollment assumptions when budgeting. The corporation is an overall gainer from out-of-district students, annually gaining approximately 650 more students than it loses to other districts. We understand that the number of out-of-district students accepted each year is driven primarily by the corporation's capacity. We expect that the new elementary school construction will alleviate capacity constraints and enable the corporation to report at least stable enrollment.

We consider the corporation's combined general and referendum funds as its operating funds. The corporation's available cash reserve of \$29.7 million (which consists of the combined general, referendum, and rainy day funds) is strong on a cash basis of accounting in our view, at 36% of operating expenditures at calendar year-end (Dec. 31) 2017. Of that amount, \$15.9 million (19.6% of expenditures) is in the general fund, \$3.8 million (4.7% of expenditures) is in the referendum fund, and \$10.0 million (12.2% of expenditures) is in the rainy day fund. The corporation reported a deficit operating result of 4.0% of expenditures in 2017 due to a one-time \$7.4 million transfer from the referendum fund to the rainy day fund.

We expect that the corporation's available reserves will remain strong. For calendar 2018 and 2019, the corporation expects that its available balances will remain in line with balances maintained at the end of 2017, which we view as likely. The corporation has benefitted in recent years from a seven-year operating referendum that was renewed by voters in November 2016. The referendum generates approximately \$6.5 million in additional revenues for the corporation each year. In addition to the referendum revenues, the corporation has a history of conservative budgeting and reporting better-than-budgeted results. The conservative budgeting practices as well as savings achieved, including labor cost savings through attrition, were the primary drivers for the corporation's additions to available cash in fiscals 2016 and 2017. We understand that the school corporation does not currently have any plans to significantly spend down its general, referendum, or rainy day funds over the next couple of years.

The state audits school corporations biennially on a cash basis, using a June 30 fiscal year-end. In the interim, schools submit semi-annual financial statements to the state that are reviewed by the Indiana Office of School Finance (IOSF), and then made available as unaudited reports. We base our analysis on these unaudited, state-issued cash reports, but on a Dec. 31, year-end basis. In most cases, schools operate, budget, and report financial performance to their school boards using a calendar year. Therefore, we believe the calendar year-end reports offer a good understanding of each corporation's financial performance and budget position. These unaudited reports adhere to the state's uniform system of accounting and reporting that all schools are required to follow and, based on the IOSF review and on prior-year comparisons with audits, we have deemed them reliable to serve as a basis of our analysis.

Management

We consider the corporation's management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Highlights include:

- Realistic and well-grounded revenue and expenditure assumptions with the use of three years of historical data, conservative estimates, and the use of outside sources of information when forecasting trends;
- Quarterly reporting of budget-to-actual results to the board with the ability to amend the budget as needed;
- No comprehensive formal long-term financial plan past the budgeted year;
- The maintenance of the state-mandated three-year capital plan as well as a plan for referendum revenues, but nothing comprehensive and more long term;
- A formal investment management policy that mirrors state guidelines with annual reporting of investment holdings and earnings to the board;
- No formal debt management policy, but the corporations adheres to state limits; and
- A formal reserve policy of maintaining at least 5% of operating expenditures as a sufficient budgetary cushion for unforeseen budgetary expenditures.

Debt

At 4.3% of market value and \$4,069 per capita, overall net debt is moderate, in our view. With 71% of the corporation's direct debt scheduled to be retired within 10 years, amortization is fairly rapid. Debt service carrying charges were 7.5% of total governmental fund expenditures excluding capital outlay in calendar year 2017, which we consider low.

We understand that the corporation expects to issue approximately \$135 million in additional debt over the next five to seven years for the completion of various voter-approved construction and renovation projects, in addition to \$4 million in GO bonds that are expected to be issued in 2018. We recognize that the school corporation's debt burden will likely increase in future years as a result of the additional debt.

In March 2017, the corporation privately placed \$38 million with Key Government Finance Inc. to advance refund the district's 2006 and 2008 bonds for interest cost savings. Of that, \$33 million is currently outstanding and matures in 2028. We recognize that the issuance agreements do not contain any payment provisions that change on the occurrence of certain events.

Pension and other postemployment benefit (OPEB) liabilities

The school corporation contributes to two retirement plans administered by the state: the Indiana State Teachers' 1996 account (TRF '96) and the Public Employees' Retirement Fund (PERF). These are both cost-sharing, multiple-employer defined benefit retirement plans (the plans share all risks and costs, including benefit costs, proportionately by the participating employers). Certain employees are also covered under the Indiana Teacher's Pre-1996 account (TRF Pre-'96). The state has assumed the entire liability of this account, which it funds on a pay-as-you-go basis, and the school corporation is not obligated to make payments to this account.

The school corporation continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was equal to 4.3% of total funds' expenditures.

As of June 30, 2017, the TRF '96 fund was 90.4% funded and the PERF was 76.6% funded in accordance with Governmental Accounting Standards Board (GASB) Nos. 67 and 68. We view the plans' actuarial assumptions, including this assumed rate of return of 6.75%, as generally reasonable because they are slightly more conservative than the national average. Considering the plans' strong funded ratios, reasonable actuarial assumptions, and low historical contribution requirements for plan participants, we do not expect the district's required pension costs to increase significantly in the medium term.

The school corporation does not subsidize OPEBs.

Outlook

The stable outlook on the long-term rating reflects the outlook on the state of Indiana and moves in tandem with the state.

The stable outlook on the underlying rating reflects our expectation that the school corporation will maintain combined available reserves at a level that we consider strong on a cash basis of accounting for the next two years. As a result, we do not expect to change the rating during the two-year outlook horizon.

Downside scenario

We could lower the rating if declining enrollment or another budgetary pressure leads to a material decrease in the school corporation's currently strong level of available reserves.

Upside scenario

If the school corporation's income indicators were to increase significantly in conjunction with the maintenance of a strong available fund balance, assuming no deterioration in the corporation's debt profile or other credit factors, we could raise the rating.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of August 14, 2018)

Ratings Detail (As Of August 14, 2018) (cont.)

Washington Twp Metro Sch Dist unlted GO bnds

<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed

Washington Township School Building Corporation (Marion County), Indiana

Washington Twp Metro Sch Dist, Indiana

Washington Township School Building Corporation (Marion County) (Washington Twp Metro Sch Dist) unlted ad valorem prop tax 1st mtg bnds (Washington Twp

<i>Long Term Rating</i>	AA+/Stable	Rating Assigned
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Rating Assigned

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.

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