S&P Global
Ratings

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Summary:

Anderson Community School Corp., Indiana
Anderson School Building Corp.; General Obligation; School State Program

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Credit Profile		
US$44.17 mil ad valorem property tax first mtg rfdg bnds (Anderson Comnty Sch Corp) ser 2019 due 01/20/2028		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	A/Stable	New

Rationale

S&P Global Ratings has assigned its 'AA+' program rating and 'A' underlying rating and rating for credit program to Anderson School Building Corp., Ind.'s series 2019 ad valorem first-mortgage refunding bonds issued for Anderson Community School Corp. At the same time, we affirmed our 'AA+' program and 'A' underlying rating on the school corporation's existing debt, issued by the building corporation on behalf of the school. The outlook on all ratings is stable.

The school corporation's underlying credit qualities continue to be supported by its maintenance of strong general fund cash reserves. This is despite the ongoing subsidy provided to its other tax-supported funds due to circuit-breaker losses. Nonetheless, we believe that this will remain a credit concern as the circuit-breaker losses are significantly high in comparison to its peers and could place some constraint on the general fund. However, rating stability remains given its growing enrollment trend and stable economy.

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

- Close proximity to the Indianapolis metropolitan area economy and stable local employment base;
- Strong operating reserves, though on a cash basis of accounting; and
- Moderate debt burden, both on a per capita basis and as a percentage of gross assessed value (AV).

Partly offsetting the above strengths, in our view, are the corporation's adequate economic indicators and significant losses due to Indiana's circuit-breaker legislation, which have necessitated general fund support of some of the school's other property tax-supported funds, particularly the transportation and capital projects funds.

Security

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 our 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 (MADS) 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, if 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 series 2019 bonds, are issued pursuant to a trust indenture between the building corporation and the trustee, and a lease between the school corporation, as lessor, and school corporation as lessee. Lease rentals paid by the school building 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 school corporation expects to use the bond proceeds from the series 2019 bonds to refund its outstanding series 2006 first-mortgage outstanding bonds for net present value savings.

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 if the leased premises are not available for use. This risk is mitigated, in our view, by the lease requiring the district to maintain at least two years of lease interruption insurance, as well as casualty insurance equal to full replacement cost. Additionally, we do not consider there to be construction risk as the 2019 bonds are expected to refund existing bonds and construction for leased premises have already been completed.

Economy

Anderson Community School Corp. serves a population of 69,711 in Madison County, roughly 40 miles northeast of downtown Indianapolis. It includes most of the city of Anderson, the seat of Madison County, as well as the towns of Chesterfield, Country Club Heights, Edgewood, River Forest, and Woodlawn Heights. Anderson is on Interstate 69, providing residents with easy access to employment in Indianapolis. Employment is also available locally, with the top employers, including Community Hospital Anderson (1,990), St. Vincent Anderson Regional Hospital (1,670), Hoosier Park Racing and Casino (1,112), Madison County (855), and Nestle (800). These employers continue to provide a stable presence and have even increased the number of their employees. Despite access to the broader employment base of Indianapolis and stable local employers, incomes are only adequate, at 74% and 73% of national averages, respectively, as measured based on median household and per capita effective buying incomes. Also, in our opinion, they remain below those of its higher rated peers and could limit upward rating movement. County unemployment, at 3.8% in 2017, while down from the prior year, remains above both state and national levels.

Roughly 11.5% of net AV comes from the 10 largest taxpayers, representing a very diverse tax base, in our opinion. The corporation's total $2.8 billion gross AV in 2018 is adequate, in our view, at $40,130 per capita. Net AV declined by a total of 2.8% from 2016 and reached $1.5 billion in 2018. This, according to management, is primarily due to several properties being demolished and converted to tax-increment financing districts. We understand that more

declines are likely, but they will probably be insignificant. However, when coupled with the already over-30% circuit-breaker loss, it could have a potential negative effect on the corporation's financial position.

Finances

Due to the amount of circuit-breaker losses, funds that generate revenues from property taxes have been pressured. Therefore, the general fund has been providing subsidies through annual transfers, primarily to the transportation and capital projects funds, so general fund operations have been mixed over the past three years, with two operating deficits and one year with positive results. However, we understand that management has made several changes in the school transportation fund and anticipates that these tax-supported funds will likely require less general fund support in the future. Also, an additional $1.8 million in revenue to be generated annually from an operating referendum passed in May 2018 is also expected provide some relief for the general fund. However, we believe that if the corporation is unable to make the necessary budgetary adjustments to offset the potential effects on its finances and its reserves weaken, we could lower the rating.

While circuit-breaker losses could place some pressure on finances, the corporation does not have the added pressure of seeing significant enrollment declines that could also weaken revenues. State aid accounted for 96.4% of general fund revenue in 2017. 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 totaled 6,819 in 2018, increasing overall from 2014 to 2018 and generating higher revenues in the general fund. However, it totals 6,715 in the 2018-2019 school year, representing a 1.5% drop. Projections show enrollment remaining flat, but ongoing declines would result in lower revenues and could weaken operations.

The corporation's available cash reserve of $11.6 million (which consists of the combined general and rainy day funds) is strong on a cash basis of accounting, in our view, at 22% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, $11.4 million (21% of expenditures) is in the general fund, and $264,000 (0.5%) is in the rainy day fund. The corporation reported a deficit operating result of 0.2% of expenditures in 2017. Expenditures in 2017 increased due to rising costs and accounting for certain expenditures from the tax-supported funds.

Based on estimates for calendar year 2018, the general fund cash reserves ended at $9.3 million, or 16.6% of general fund expenditures after a $2.4 million shortfall. This, according to the school, was a result of lower revenues due to enrollment declines, coupled with higher expenditures from settled collective bargaining agreements.

Beginning in fiscal 2019, the general fund will be replaced with an education fund and most non-instructional service funds will be replaced by an operations fund. Based on the 2019 calendar year budget, the education fund totals $42.9 million. It is our understanding that the school is not expecting any material changes to its cash reserves.

We believe that rating stability is contingent on the corporation's ability to maintain its current cash reserves in light of continued circuit-breaker losses, revenue shortfalls from potential enrollment declines, and expenditure growth.

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 prescribe 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 consider 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.

Management develops the annual budget on a calendar-year basis, incorporating both historical trend analysis and information from outside vendors and suppliers. The school board receives monthly reports detailing budgetary performance annually and reports showing investment performance. The district maintains a three-year capital plan that is updated and shared with the board annually. Management has a fund balance target of keeping general and rainy day fund cash reserves at or above $10 million to meet cash-flow needs and any contingencies that should arise. The school corporation lacks a formal multiyear financial plan and debt management policy.

Debt

As a percentage of market value, we consider overall (including overlapping debt) net debt moderately high, at 9.8%, but moderate on a per capita basis at $3,388. Amortization is average, with 63% of the corporation's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 12.9% of total governmental fund expenditures (excluding capital outlay) in calendar year 2017, which we consider moderate. We do not expect that the corporation's debt burden is likely to increase give the lack of addition debt needs.

Pension and other postemployment benefit 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). In calendar year 2017, it paid its full required contribution of $3.4 million, or 4.0% of total governmental expenditures, toward its pension obligations.

As of June 30, 2018, the TRF '96 fund was 98.5% funded and PERF was 79% 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 school corporation's required pension costs to increase significantly in the medium term.

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 outlook on the 'A' underlying rating reflects our view that the school corporation's will likely make the necessary budgetary adjustments and maintain its strong general fund cash reserves. It also reflects the stability of the economy supported by its access to a broader economic base. Therefore, we do not expect to raise the rating in the two-year outlook horizon.

Downside scenario

We could lower the rating should available cash reserves deteriorate as a result of the school corporation's inability to make the necessary budgetary adjustments to mitigate continued circuit-breaker losses, compounded by potential revenue shortfalls should enrollment decline and expenditures rise.

Upside scenario

If the school corporation's economic indicators were to increase to levels commensurate with those of its higher-rated peers in conjunction with consistent and strengthened cash reserves, we could raise the rating.

Ratings Detail (As Of February 20, 2019)		
Anderson Comnty Sch Corp SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Affirmed
Anderson Sch Bldg Corp, Indiana		
Anderson Comnty Sch Corp, Indiana		
Anderson Sch Bldg Corp (Anderson Comnty Sch Corp) unltd ad valorem prop tax 1st mtg bnds		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Affirmed
Anderson Sch Bldg Corp (Anderson Comnty Sch Corp) SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Affirmed
Anderson Sch Bldg Corp (Anderson Comnty Sch Corp)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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