

# RatingsDirect®

---

## Summary:

**Union-North United School Building Corp., Indiana**

**Union-North United School Corp.;  
School State Program**

### Primary Credit Analyst:

Taylor Budrow, Chicago + 1 (312) 233 7082; [taylor.budrow@spglobal.com](mailto:taylor.budrow@spglobal.com)

### Secondary Contact:

Michael J Mooney, New York (1) 212-438-4943; [michael.mooney1@spglobal.com](mailto:michael.mooney1@spglobal.com)

## Table Of Contents

---

Rationale

Outlook

## Summary:

# Union-North United School Building Corp., Indiana Union-North United School Corp.; School State Program

Credit Profile		
US\$8.2 mil ad valorem prop tax 1st mtg bnds (Union-North Utd Sch Corp) ser 2018 due 01/15/2037		
<i>Long Term Rating</i>	AA+/Stable	New
<i>Underlying Rating for Credit Program</i>	A/Stable	New
Union-North Utd Sch Corp GO bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Union-North Utd Sch Bldg Corp, Indiana</b>		
Union-North Utd Sch Corp, Indiana		
Union-North United Sch Bldg Corp (Union-North United Sch Corp)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

## Rationale

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

Management indicates the series 2018 bond proceeds will be used for various renovations and improvement projects to school facilities.

The 'A' rating is based on the school district's ad valorem tax pledge, and reflects our view of its:

- Strong market value per capita indicators;
- Strong combined available reserves on a cash basis of accounting;
- Trend of increasing enrollment; and
- Moderate overall debt profile with above-average amortization.

Partially offsetting the above strengths in our view are the school corporation's income indicators, which while at levels that we consider adequate to good, are not commensurate with those of its higher-rated peers and the expected decrease in its general fund balance in fiscal 2019.

The school corporation has benefitted in recent years from enrollment growth, which is the primary determinant of state aid. As a result, the school corporation has increased its combined general and rainy cash balances to a level that we consider strong as a percentage of its operating budget at the end of fiscal 2017. We view the school corporation's income indicators and recent increase in labor costs, which is expected to result in a decrease in the school corporation's general fund balance in fiscal 2019, as offsetting credit factors. However, the corporation's history of conservative budgeting in conjunction with its positive enrollment trend provide rating stability.

## **Security**

The 'A' rating is based on the ad valorem property tax pledge. The 2018 bonds are payable by lease rental payments paid directly to an independent trustee pursuant to a trust indenture between the building corporation and the trustee and a lease between the school corporation and the building corporation. Rent is payable from ad valorem taxes against all taxable property within the corporation's boundaries, and rental payments are not subject to annual appropriation under Indiana law. Lease payments are subject to abatement if the leased property is damaged or destroyed, though abatement risk is mitigated by lease provisions requiring the corporation to maintain rental value insurance sufficient to cover two years' rent and property or casualty insurance sufficient to cover the full replacement cost of the leased property. Additionally, we do not consider there to be construction risk, as the leased premises are already in use and will remain occupied during the project period. Lease payments will not be dependent on project completion.

The ad valorem property tax pledge, which secures the corporation's 2018 bonds is subject to state circuit-breaker legislation, which caps the property tax burden for taxpayers based on a percent of the real estate parcels' gross assessed value (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 corporation's general creditworthiness.

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 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.

## **Economy**

Union-North United School Corp serves an estimated population of 7,957. At 95% we consider the corporation's median household effective buying incomes at a level that we view as strong, but only adequate on a per capita basis at 83% of national average. The corporation's total \$455 million gross AV in 2018 is strong, in our view, at \$57,235 per capita. Roughly 10.0% of net AV comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

The school corporation is located across St. Joseph and Marshall counties in north central Indiana. The primarily residential school corporation is located approximately 10 miles south of South Bend, 120 miles north of Indianapolis, and 75 miles southeast of Chicago. While the local economy is primarily residential, it contains a portion of agricultural property as well. As the result of a state-wide reassessment of agricultural values, the school corporation's AV has declined slightly in recent years. Management expects overall stable AV over the next several years as a result of ongoing development, which is expected to offset any additional losses as a result of the agricultural reassessment, 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. Student enrollment has grown in recent years, increasing by 9.9% since 2015 to 1,222 students for the 2017-2018 school year. The school corporation attributes enrollment increases in part to an increasing number of students attending the school corporation from outside school districts. The school corporation is a net gainer from open enrollment, gaining approximately 345 more students than it lost in the current year. Enrollment increases have moderated in recent years and management expects relatively stable enrollment figures for the next several years, which we view as likely. State aid accounted for 98.4% of general fund revenue in 2017.

The corporation's available cash reserve of \$1.27 million (which consists of the combined general and rainy day funds) is strong on a cash basis of accounting in our view, at 18.2% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, \$1.17 million (16.8% of expenditures) is in the general fund, and \$100,000 (1.4% of expenditures) is in the rainy day fund. The corporation reported a surplus operating result of 4.6% of expenditures in 2017.

We expect that the corporation's available reserves will remain good on a cash basis of accounting over the next few years. Due in part to slightly increasing enrollment in conjunction with conservative budgeting practices, the school corporation has reported operating surpluses in each of the past three years.

In fiscal 2018, the school corporation expects to report at least a \$1.6 million available balance across its general and rainy day funds, conservatively expecting a \$300,000 increase, equivalent to 4.3% of operating expenditures. The expected positive result is due in part to a one-time receipt of \$124,000 associated with a settlement, which the school corporation will add to its rainy day balance. The school corporation has benefitted from conservative budgeting practices, increasing enrollment, and savings achieved through attrition in recent years, leading to several years of at least balanced operations.

In fiscal 2019, the school corporation expects to utilize a portion of its available reserves due to a \$200,000 stipend

paid to teachers in conjunction with a \$400,000 increase in labor costs as a result of contract negotiations with labor groups. While we expect the school corporation's level of available reserves will decrease as a result of the new contract, we expect that the school corporation will continue to make the necessary budgetary adjustments to maintain a level of available reserves that we consider at least good on a cash basis. Additionally, we recognize that management does not intend to decrease its general fund balance below its target of maintaining an available balance of at least one month's expenditures, equivalent to 8.3% of operating expenditures, a level that we consider good on a cash basis of accounting.

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 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 a focus on the most recent year of expenditures, conservative estimates, and the use of outside sources of information when forecasting trends;
- Monthly reporting to the board of budget to actual results, with the ability to amend the budget as needed;
- No comprehensive formal long-term financial plan past the budgeted year;
- The maintenance of a five-year facility study, which is updated annually and includes funding uses for projects, but identification of funding sources is not comprehensive;
- A formal investment management policy with annual reporting of investment holdings and earnings to the board;
- No formal debt management policy, but it adheres to state limits; and
- Informal target of maintaining a general fund balance equal to at least one month's expenditures for cash-flow needs and as a sufficient cushion for any unforeseen budgetary pressure; the school corporation is currently exceeding that target.

## **Debt**

Overall net debt is 4.1% of market value and \$2,349 per capita, which we believe to be moderate. Amortization is above average, with 60% of the corporation's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 10.0% of total governmental fund expenditures, excluding capital outlay in calendar year 2017, which we consider moderate.

We understand that the district does not currently have any plans to issue additional debt and management also confirms it has no contingent liquidity risks from financial instruments with payment provisions that change upon certain events.

## **Pension**

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 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 school corporation's required pension costs to increase significantly in the medium term.

The school corporation provides other postemployment benefits (OPEB) to eligible employees in the form of defined contribution matching. OPEB costs totaled \$115,000 in fiscal 2017, equivalent to 1.7% of operating expenditures.

## **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 good 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.

### **Upside scenario**

If the school corporation were to sustain its current level of available reserves, assuming no deterioration in the corporation's other credit factors, we could raise the rating.

### **Downside scenario**

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

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.