

RatingsDirect®

Summary:

Lebanon Community School Corp., Indiana; School State Program

Primary Credit Analyst:

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

Secondary Contact:

Anna Uboytseva, Chicago (1) 312-233-7067; anna.uboytseva@spglobal.com

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Summary:

Lebanon Community School Corp., Indiana; School State Program

Credit Profile

US\$5.0 mil GO bnds ser 2018 due 01/15/2023

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

Lebanon Middle Sch Bldg Corp, Indiana

Lebanon Comnty Sch Corp, Indiana

Lebanon Middle Sch Bldg Corp (Lebanon Comnty Sch Corp) unltd ad valorem prop tax 1st mtg bnds

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

Lebanon Middle Sch Bldg Corp (Lebanon Comnty Sch Corp) GO SCHSTPR

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA+' long-term program rating and 'A+' underlying rating to Lebanon Community School Corp., Ind.'s series 2018 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' long-term program rating and 'A+' underlying rating on the school corporation's existing limited tax debt. The outlook on all ratings is stable.

2018 GO bond proceeds will be used for various renovation and improvement projects to school facilities in addition to the purchase of buses, equipment, and technology.

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

- Stable local economy, with access to the greater Indianapolis area job base, which supports very strong market value per capita indicators;
- Overall enrollment growth in recent years, which we anticipate will remain at least stable for the next few years; and
- Positive operations in recent years, with available reserves that have grown to 25% of expenditures and are respected to remain strong as measured on a cash basis of accounting.

The school corporation's moderate to high debt profile and income indicators, which while at levels that we consider adequate to good, remain offsetting credit factors.

The school corporation has benefitted in recent years from an overall increase in enrollment, which is the primary determinant of state-aid. Increasing state-aid revenues, in conjunction with conservative budgeting practices, have resulted in slightly positive operating results in recent years which we expect will continue. The district's proximity to

Indianapolis is a credit strength, while its moderately concentrated tax base is a credit weakness in our view. The corporation's level of available reserves and location in Boone County, where population continues to grow significantly, provide rating stability.

Security

The ad valorem property tax pledge, which secures the corporation's 2018 GO bonds and other outstanding limited-tax debt 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

Lebanon Community School Corp. serves an estimated population of 23,286. In our opinion, median household effective buying income (EBI) is good at 93% of the national level, but per capita EBI is adequate at 87%. At \$111,843 per capita, the 2018 gross AV totaling \$2.6 billion is, in our opinion, extremely strong. Net AV grew by a total of 3.8% since 2016 to \$1.4 billion in 2018.

The school corporation is located in Boone County in central Indiana, approximately 25 miles northwest of Indianapolis. Of the counties surrounding Indianapolis, Boone County has been one of the fastest growing in recent years. Residents benefit from the employment opportunities afforded by their proximity to the greater Indianapolis economy. The school corporation's AV has increased in recent years and management expects slight to stable increases in AV to continue as a result of ongoing development, including the recent approval of several housing developments, which we view as likely. We recognize that the school corporation's lower population density is likely the primary driver for its market value per capita indicator, which we view as very strong.

The school corporation's tax base is concentrated as the top 10 taxpayers accounted for 32.5% of total net assessed valuation in 2018, which we view as a credit negative. The three largest taxpayers are real estate developers and

account for 21.5% of total net AV. The concentration creates a moderate degree of vulnerability to any changes in one or a few taxpayers' assessments. Although the general fund does not rely on property tax collection, other funds that are critical to operations (debt service, transportation, capital projects, bus replacement) do.

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 3,481 students in 2018, however, enrollment declined slightly during the 2016-2017 year, which management attributes to increased pressure from online and home-schooling options, which we view as likely. We expect the school corporation's enrollment will remain relatively stable in future years and we recognize that it could benefit significantly in future years if housing developments, which have been approved within the corporation's boundaries, are completed. State aid accounted for 98.5% of general fund revenue in 2017.

The corporation's available cash reserve of \$5.8 million (which consists of the combined general and rainy day funds) is strong on a cash basis of accounting in our view, at 25% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, \$3.2 million (13.8% of expenditures) is in the general fund, and \$2.7 million (11.7% of expenditures) is in the rainy day fund. The corporation reported a surplus operating result of 3.6% of expenditures in 2017.

We expect that the corporation's available reserves will remain strong on a cash basis of accounting over the next few years. Despite slight fluctuations in enrollment, the school corporation has reported positive operating results in each of the past two years, primarily due to conservative budgeting assumptions.

For fiscals 2018 and 2019, the school corporation expects to report at least balanced general fund and rainy day fund cash balances as a continued result of conservative budgeting practices. For 2018, the school corporation expects to report an ending general fund balance of approximately \$3.5 million and an at least consistent rainy day fund balance. We recognize that the rainy day fund could benefit significantly due to the potential sale of land from which the proceeds will be deposited into the rainy day fund. Even if the sale of land is not completed before the end of the year, the expected combined general and rainy day fund balances of \$6.2 million, would remain strong on a cash basis of accounting in our opinion at 27% of operating expenditures. The school corporation's budget for 2019 includes pay increases for staff, but as a result of conservative budgeting in conjunction with decreased pressure from capital needs as a result of the bond issuance, the corporation expects to report a near stable operating fund balance, which we view as likely. We understand that the corporation does not currently have any plans to significantly spend down either its general or rainy day fund balances.

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 revenue and expenditure assumptions with the use of up to six years of historical data, conservative estimates, and the use of outside sources of information when forecasting trends, but no robust and regularly updated enrollment projections;
- Monthly reporting to the board of year-to-date and month-to-date revenue and expenditures compared to budgeted amounts, which includes beginning and ending cash balances by fund;
- No comprehensive formal long-term financial plan past the budgeted year;
- The maintenance of the state-mandated three-year capital plan, but nothing comprehensive and more long term;
- Adhering to state guidelines when making investments 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 of at least 9% of operating expenditures as a sufficient cushion for any unforeseen budgetary pressures; the school corporation is currently exceeding the target.

Debt

Overall net debt is moderate, in our opinion, as a percentage of market value at 4.5%, but high on a per capita basis at \$5,067. Amortization is rapid, with 100% of the corporation's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 19.2% of total governmental fund expenditures, excluding capital outlay in calendar year 2017, which we consider elevated.

While the school corporation's debt per capita is high, we recognize that approximately 62% of stated debt was issued and currently carried by overlapping entities. The school corporation's own debt is more manageable, at approximately \$2,000 per capita. We understand that the school corporation 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 and other postemployment benefit liabilities

The school corporation contributes to the Indiana State Teachers' 1996 account (TRF '96), which is a cost-sharing, multiple-employer defined benefit retirement plan (the plans share all risks and costs, including benefit costs, proportionately by the participating employers) administered by the state. 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 4.6% of total funds' expenditures.

As of June 30, 2017, the TRF '96 fund was 90.4% funded in accordance with Governmental Accounting Standards Board (GASB) Nos. 67 and 68. We view the plan's 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 plan's strong funded ratio, 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 does not subsidize other postemployment benefits.

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 more formalized management practices and policies and the maintenance of a strong available fund balance, assuming no deterioration in the corporation's other credit factors, we could raise the rating.

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