

RatingsDirect®

Summary:

**Blackford County School Building
Corp., Indiana
Blackford County Schools; School
State Program**

Primary Credit Analyst:

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

Secondary Contact:

Benjamin D Gallovic, Chicago + 1 (312) 233 7070; benjamin.gallovic@spglobal.com

Table Of Contents

Rationale

Outlook

Summary:

Blackford County School Building Corp., Indiana Blackford County Schools; School State Program

Credit Profile

US\$5.0 mil ad valorem prop tax 1st mtg bnds (Blackford Cnty Schs) ser 2018 due 01/01/2028

<i>Long Term Rating</i>	AA+/Stable	New
-------------------------	------------	-----

<i>Underlying Rating for Credit Program</i>	A/Stable	New
---	----------	-----

Blackford Cnty Sch Bldg Corp, Indiana

Blackford Cnty Schs, Indiana

Blackford Cnty Sch Bldg Corp (Blackford Cnty Schs) SCHSTPR

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

<i>Underlying Rating for Credit Program</i>	A/Stable	Affirmed
---	----------	----------

Rationale

S&P Global Ratings assigned its 'AA+' long-term program rating and 'A' underlying rating to Blackford County School Building Corp., Ind.'s series 2018 ad valorem property tax first mortgage bonds, issued on behalf of Blackford County Schools. 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.

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 payments being made 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 (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, 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 the debt service shortfall.

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

- Stable local economy with strong market value per capita indicators;
- Strong available reserves on a cash basis of accounting; and

- History of positive operating performance.

Partially offsetting the above strengths in our view are the school corporation's declining enrollment trend, which is the primary determinant of state aid, and the potential use of fund balances in future years for capital spending.

The 'A' rating is based on the ad valorem property tax pledge. The 2018 ad valorem property tax first mortgage bonds are issued pursuant to a trust indenture between the 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.

Bond proceeds will be used for various school facility improvement projects, including the construction of a middle school athletic facility.

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, 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 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 school corporation's general creditworthiness.

Economy

Blackford County Schools serves an estimated population of 12,164. At 75% and 78% of national averages, respectively, the corporation's median household and per capita effective buying incomes are adequate in our view. At \$57,636 per capita, the 2018 gross AV totaling \$701.1 million is, in our opinion, strong. Net AV grew by a total of 2.6% overall from 2016 to \$445.8 million in 2018, but in 2018 it decreased slightly by 0.1%. Roughly 17.5% of net AV comes from the 10 largest taxpayers, representing a diverse tax base in our opinion.

The school corporation is located in Blackford County in the east central portion of the state. The corporation is located approximately 70 miles northeast of Indianapolis and 50 miles south of Fort Wayne. Centered in Hartford City, the local economy is primarily rural and agricultural, but includes a number of small-scale manufacturers and public-sector institutions. Top employers include Blackford County Schools (266 employees), BRC Rubber & Plastics Inc. (manufacturing, 250 employees), and IU Health Blackford Hospital (200). The corporation's AV has increased slightly overall in recent years, which the corporation attributes to general increases in property values, which we view as likely. We expect trends in AV to be effected by the state of Indiana's ongoing reassessment of agricultural land. Due to the prevalence of agricultural property within the corporation's boundaries, management expects that a slight decrease in AV is possible in future years, which we view as likely.

Finances

General fund operations of Indiana school corporations rely almost entirely on state tuition support, determined on a per-pupil basis. Consequently, under the current formula, enrollment trends and the amount of aid the state appropriates are the key drivers of general fund revenue. Other core operating services such as transportation, bus replacement, and capital are accounted for separately outside of the general fund. These funds are supported by local property taxes, which may be affected by circuit breaker tax caps. Enrollment has decreased by 11% since 2014, declining to 1,600 students for the 2018 year. State aid accounted for 98.8% of general fund revenue in 2017.

The school corporation's enrollment has declined overall in recent years, which management attributes to a declining population across the county in addition to a loss of students to other districts through open enrollment. We recognize that while enrollment has decreased in each of the past nine years, declines have moderated in recent years, which management attributes to a more stable effect from open enrollment. The school corporation utilizes in-house enrollment projections which incorporate county birth rates and cohort analysis to forecast future class sizes. The school corporation utilizes conservative enrollment assumptions for budgeting purposes. Management expects enrollment will continue to decline in future years due primarily to the county's declining population, which we view as likely.

The corporation's available cash reserve of \$4.7 million (which consists of the combined general and rainy day funds) is strong on a cash basis of accounting in our view, at 43% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, \$4.7 million (43% of expenditures) is in the general fund, and \$35,000 (0.3% of expenditures) is in the rainy day fund. The corporation reported a surplus operating result of 7.1% 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 declines in enrollment, the school corporation has reported significantly positive operating results in each of the past three years. We understand that the positive operating performance resulted from proactive labor reductions over the past few years, which resulted in cost savings that outpaced the lost per-pupil revenue.

For 2018 and 2019, the school corporation expects to report slightly positive operating results, but significantly smaller than the large additions made to available balances in recent years. The 2018 general fund balance is expected to increase by approximately \$150,000 after \$500,000 was utilized for capital projects. In addition to its proactive approach to expenditure management, which includes closing an elementary school in 2019, we understand that management intends to include more capital spending as part of its annual budget in an effort to improve school facilities as well as to catch up on capital spending, which had been deferred in previous years. We understand that the corporation could potentially decrease its general fund balance to \$3.7 million over the next few years as a result of an increased emphasis on capital spending, a level that we would consider strong on a cash basis at 33.8% of 2017 operating expenditures.

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 the use of several years of historical data, conservative estimates, and the use of outside sources of information when forecasting trends;
- Monthly reporting to the board of year to date expenditures compared to the budget in conjunction with a monthly cash report, which compares year to date cash balances by month to the same months in the prior year;
- No comprehensive formal long-term financial plan past the budgeted year;
- The maintenance of the state-mandated three-year capital plan, but nothing comprehensive or more long term;
- 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
- No formal or informal reserve or liquidity policy.

Debt

At 2.8% of market value, we consider overall net debt as low, and at \$773 on a per capita basis, we view it as very low. Amortization is rapid, with 100% of the corporation's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 17.5% of total governmental fund expenditures, excluding capital outlay in calendar year 2017, which we consider elevated.

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 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); the 2017 payment was equal to 3.3% 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 district'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.

Upside scenario

If the school corporation's economic indicators were to increase significantly in conjunction with the maintenance of a strong available fund balance, 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, significant capital spending, 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 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.

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 (free of charge), and www.ratingsdirect.com and 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.

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