

RatingsDirect®

Summary:

Franklin Community School Corporation, Indiana; School State Program

Primary Credit Analyst:

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

Secondary Contact:

Erich L Schmitz, Chicago (1) 312-233-7076; Erich.Schmitz@spglobal.com

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Summary:

Franklin Community School Corporation, Indiana; School State Program

Credit Profile

US\$5.0 mil GO bnds ser 2018 due 01/15/2025

Long Term Rating

AA+/Stable

New

Underlying Rating for Credit Program

A+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'A+' underlying rating to Franklin Community School Corp., Ind.'s series 2018 \$5 million general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'A+' underlying rating and 'AA+' long-term rating on the district's previously issued bonds. The outlook is stable.

The series 2018 GO bonds are payable from ad valorem property taxes levied on all taxable property within the school corporation. The ad valorem property tax pledge is subject to state circuit breaker legislation, which caps the property tax burden 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 district 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 district's general creditworthiness. The bond proceeds from the 2018 GO bonds will be used to finance various improvements and technology projects.

The 'A+' rating reflects the school corporation's own creditworthiness, including our view of its:

- Participation in the deep and diverse Indianapolis metropolitan statistical area (MSA) economy and employment center;
- Good income indicators; and
- Stable overall financial position, supported by what we consider strong reserves in the general and rainy day funds (\$9 million at the end of 2017).

Partially offsetting the above strengths is our view of the district's moderate overall debt burden and high debt service carrying charges.

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 Ratings Direct).

Annual state aid appropriated and allocated for distribution during the state's fiscal year covers maximum annual debt service 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.

Previously rated debt obligations are secured by lease rental payments payable from ad valorem property taxes levied against all taxable property within the school corporation. The tax levy is not subject to annual appropriation under Indiana law. However, there is abatement risk because the district 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 leases requiring the district to maintain at least two years of lease-interruption insurance as well as casualty insurance equal to full replacement cost.

Economy

Franklin Community School Corp. serves a population of approximately 31,840 in central Indiana's Johnson County, approximately 20 miles south of Indianapolis. The corporation includes Franklin, the Johnson County seat, portions of the town of Bargersville and Whiteland, as well as surrounding townships. . In addition to small-to-midsize manufacturing and service-based jobs, district residents benefit from easy access via Interstate 65 to the deep and diverse Indianapolis MSA employment base. County unemployment of 2.9% in 2017 remained below state and national rates. Median household and per capita effective buying income indicators in the district are a good 97% and adequate 85%, respectively, of national levels. Net AV increased 11% overall in 2014-2018. The district's gross AV, which is more indicative of true market value, totaled \$2.1 billion, or \$66,704 per capita, which we view as strong. District officials project AV to rise incrementally in the coming years.

Due to the district's relative affordability, easy access to the Indianapolis MSA, and vibrant Franklin downtown area, the total population has increased consistently since 1970 and there are no indications that the current rate of growth will slow in the near future.

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 in separate funds outside of the general fund. These funds are supported by local property taxes, which may be affected by circuit breaker tax caps.

Enrollment across the corporation's eight schools grew by 196, or 4%, over the past 10 years, to 5,096 for the 2017-2018 school year. Officials expect it to remain stable or to rise incrementally over the next several years.

The district's circuit breaker losses (16% of 2017 certified levies) are on the high end, limiting the revenues available to fund transportation, bus replacement, and capital programs, which are all funded with local property taxes.

The school corporation's financial position remains robust despite circuit breaker pressures; it has improved in the past

several years because of spending reductions and careful budget management. Tight expenditure controls allowed the district to maintain solid reserves in the general and rainy day funds -- its two main funds which balances are available for general operations and emergencies. In calendar 2017, the school corporation posted a \$294,000 operating general fund reduction (less than 1% of expenditures) that brought the available cash balance to \$2.9 million, or a good 8.8% of operating expenditures. The district added about \$62,000 to the rainy day fund; the fund balance at the end of the year rounded to \$6.1 million. Combined available reserves (including general rainy day funds) totaled \$9 million or 27% of general fund expenditures in 2017, a level we consider strong on a cash basis of accounting.

Officials expect to have about \$9.3 million and \$9.4 million in combined available reserves in 2018 and 2019, respectively. High rainy day fund reserves provide flexibility to handle the effects of circuit breaker losses, according to officials, so reserves are expected to remain high. General fund reserves are predicted to improve slightly as well. Several years ago, management set a formal progressive goal to build the general fund cash balance to levels at or above 9% of general fund budget; officials anticipate achieving that level by 2020.

The state audits school corporations biennially on a cash basis, using a June 30 fiscal year-end. In the interim, schools submit semiannual 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 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 previous-year comparisons with audits, they have been deemed reliable to serve as a basis for our analysis.

Management

We consider management practices "standard" under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. The district's financial management policies and practices are comprehensive.

Officials use five years of historical data and outside sources when preparing the budget. Management reviews budget-to-actual results with the school board quarterly and investments holdings and earnings annually. The district maintains a three-year financial plan that is reviewed annually and used as a tool in preparing the budget; the plan identifies important budget components but is not quite detailed on the line-item level. Officials follow state guidelines when it comes to debt management and have their own investment management policy. Management set a formal progressive goal to build the general fund to levels above 9% over the course of several years; officials anticipate achieving that level by 2020. The district complied with an 8.25% operating reserve target set for 2017.

Officials do not have a rolling five-year capital improvement plan for which funding is identified for all years and that is linked to the operating budget and long-term revenue and financing strategies, although some capital planning is done regularly.

Debt

In our opinion, overall net debt is moderate at 5.8% of market value and \$3,901 on a per capita basis. The district has slightly over \$100 million in direct debt outstanding; it is scheduled to amortize quickly (97% will retire in 10 years).

The debt service carrying charge in 2017 was 26% of total governmental fund expenditures excluding capital outlay, which we consider high. The district has no alternative financings such as variable-rate or direct-purchase debt obligations and no additional debt issuance plans.

Pensions

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 Nos. 67 and 68. We view the plans' actuarial assumptions, including the 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 allows employees to remain on its health care plan upon retirement, but retirees pay the full amount of their premiums. Therefore, there is only an implicit liability to the school district.

Outlook

The stable outlook on the long-term rating reflects our opinion of the strength of Indiana's state aid intercept structure.

The stable outlook on the underlying rating reflects the district's recent record of strong liquidity and demonstrated ability to adjust the budget despite the stress of high circuit breaker losses and expected credit stability in the future. In our view, these characteristics reduce the risk that an unanticipated revenue shortfall (state aid or property tax) could result in strain on the district's ability to fund its debt service. The district's participation in the Indianapolis metropolitan area economy and growing enrollment further support the stable outlook. We do not expect to change the rating over the outlook's two-year period.

Upside scenario

We could raise the rating if the district reduces its high fixed costs while it strengthens and sustains its strong reserves through consecutive operating surpluses.

Downside scenario

Should the district use a significant amount of reserves due to increased pressures associated with the circuit breaker credits and high debt costs, we could lower the rating.

Ratings Detail (As Of July 20, 2018)

Franklin Comnty Sch Corp GO bnds

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

Franklin Comnty Multi Sch Bldg Corp., Indiana

Franklin Comnty Sch Corp, Indiana

Franklin Comnty Multi Sch Bldg Corp. (Franklin Comnty Sch Corp) ad valorem prop tax first mtg rfdg bnds (Franklin Comnty Sch Corp) ser 2015 due 01/15/

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

Franklin Comnty Multi Sch Bldg Corp. (Franklin Comnty Sch Corp) ad valorem prop tax 1st mtg rfdg bnds

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

Franklin Comnty Multi Sch Bldg Corp. (Franklin Comnty Sch Corp) (Wrap of insured) (FGIC & AGM) (SEC MKT)

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed

Franklin Comnty Multi Sch Bldg Corp (Franklin Comnty Sch Corp) GO

<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Franklin Comnty Multi Sch Bldg Corp. (Franklin Comnty Sch Corp) GO

<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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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