

RatingsDirect®

Summary:

Concord Community School Building Corp., Indiana Concord Community Schools; School State Program

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Concord Community School Building Corp., Indiana Concord Community Schools; School State Program

Credit Profile

US\$7.85 mil ad valorem prop tax 1st mtg bnds (Concord Community Schools) ser 2018 dtd 06/12/2018 due 01/15/2030

<i>Long Term Rating</i>	AA+/Stable	New
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<i>Underlying Rating for Credit Program</i>	A+/Stable	New
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Concord Comnty Sch Bldg Corp, Indiana

Concord Comnty Schs, Indiana

Concord Comnty Sch Bldg Corp (Concord Comnty Schs) ad valorem prop 1st mtg rfdg bnds (Concord Community Schools) ser 2016 due 01/15/2029

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
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Concord Comnty Sch Bldg Corp (Concord Comnty Schs) GO State Credit Enhancement

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Current
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Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA+' program rating and 'A+' underlying rating to Concord Community School Building Corp., Ind.'s series 2018 ad valorem property tax first-mortgage bonds, issued on behalf of Concord Community Schools. At the same time, we affirmed our 'AA+' program rating and 'A+' underlying rating on the building corporation's existing debt issued on behalf of the school corporation. The outlook is stable.

The 'AA+' rating is contingent on the school district's meeting our Indiana State Aid Intercept program rating criteria and on our assessment of the strength of the state aid intercept structure, which is based on Section 20-48-1-11 of the Indiana Code. The enhanced rating reflects at least 2x maximum annual debt service (MADS) coverage using state aid appropriated and allocated for distribution to the school corporation (during the state's fiscal year). In addition, appropriated yet undisbursed state aid should provide at least 1x maximum semiannual debt service coverage. If these coverage thresholds are met and debt obligations contain certain bond provisions, we will rate obligations that benefit from this statutory enhancement under the intercept/withholding program section of our state credit enhancement criteria. The rating is set one notch off the issuer credit rating (ICR) because we consider this equivalent to the appropriation rating and outlook on the state rating.

Proceeds from the 2018 ad valorem property tax first-mortgage bonds will be used to make renovations and additions to Concord High School. The series 2018 bonds are secured by lease rental payments paid directly to an independent

trustee pursuant to a trust indenture between the school building corporation and trustee and a lease between the school district and the school building corporation. Rent is payable from revenue from ad valorem taxes against all taxable property within the district'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 lease provisions requiring the district 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 mitigate abatement risk. Renovations to the high school are expected to be completed by June 2019. Capitalized interest will cover the first interest payment in July 2019, and the first principal payment is not until January 2020, more than six months after the expected completion of construction. We believe this mitigates construction risk.

The ad valorem property taxes, from which payments on the proposed and previously rated bonds are made, are subject to Indiana's circuit breaker legislation, which requires taxpayers to pay only as much as a statutorily defined share of their property's gross assessed value (AV). This can result in a reduction in the district's aggregate tax levy. The school district was designated as an eligible school district, which means that it has allocated its circuit-breaker tax credit losses proportionately across all of its property-tax-supported funds, including its debt service fund, thereby exempting itself from the protected taxes requirement. We rate the limited-tax general obligation debt at the same level as our view of the school district's general creditworthiness given that ad valorem taxes are collected from the district's entire tax base and because there are no limitations on the fungibility of resources available for debt service.

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

- Strong per capita market value;
- Maintenance of strong available cash reserves between the general, referendum, and "rainy day" funds;
- Long-term trend of increasing enrollment, which directly affects state aid revenue; and
- Moderate debt burden.

Partly offsetting the above strengths, in our view, are:

- The local economy's concentration in manufacturing, particularly recreational vehicle (RV) manufacturing,
- Below-average, though adequate, incomes; and
- Elevated debt service carrying charges.

Economy

Concord Community Schools serves an estimated population of 26,346. Median household effective buying income (EBI) is 85% of the national average, and per capita EBI is 73% of the national average, both of which we consider adequate. At \$60,762 per capita, the 2017 gross AV totaling \$1.6 billion is, in our opinion, strong. The 8.9% increase since 2016 brought net AV to \$1.1 billion in 2018. Management expects continued slow, steady growth in the near term, primarily related to residential development in the district, which encompasses a largely residential community couched between the larger cities of Elkhart and Goshen. The tax base is diverse, in our view, with the 10 largest taxpayers accounting for approximately 16.5% of net AV.

Concord Community School Corp. is in north central Indiana's Elkhart County. It covers 27 square miles, including parts of Concord Township and the cities of Goshen and Elkhart, and lies 10 miles east of South Bend and 10 miles south of the Michigan line. The Elkhart County economy is a regional manufacturing hub, and top employers are predominantly large manufacturing firms that produce RVs and related vehicles. These include Forest River Inc., (employs 6,400), Drew Industries Inc. (5,500), Keystone RV Co. (4,495), Thor Motor Coach (2,870), and Elkhart General Hospital (2,584).

At the height of the Great Recession, the countywide unemployment rate ballooned to more than 18%, though it has since declined to a level well under state and national levels as the manufacturing sector has staged a healthy recovery. The countywide unemployment rate was only 2.5% in 2017, compared with a state rate of 3.5%. While local employment is strong and unemployment low, we believe the economy remains vulnerable to swings in employment levels because of the heavy concentration in manufacturing (particularly RV manufacturing).

Finances

General fund operations of Indiana school districts 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. State aid accounted for 87.4% of general fund revenue in 2017. Fueled by a rebounding area economy and supported by the presence of a large number of transfer students from other schools, Concord has experienced steady enrollment gains since the 2008-2009 school year, having grown by 16% overall to 5,374 as of the 2016-2017 school year. However, in the 2017-2018 school year, enrollment fell by 110 students to 5,264. Management attributes the decline to a cap on the number of transfer students it accepts. The cap incorporates a contingency for students possibly moving into the district, the amount of which ended up being lower than projected. Management reports that the district has adjusted its approach to maximize the caps more efficiently and prevent an enrollment loss. Projections indicate enrollment growing to 5,414 by the 2022-2023 school year, and officials report that the district has capacity to accommodate this growth.

As part of our analysis, we have combined the district's general and referendum funds. The referendum fund accounts for the collection of an additional voter-approved operating property tax levy, which is not subject to circuit breaker legislation. The district reported a deficit operating result of 3.1% of expenditures in 2017, following six years of operating surpluses. The deficit was partly due to the drop in enrollment and an increase in salary and benefit costs, but also reflects an intentional spend-down of reserves in the referendum fund for capital projects. The general fund balance decreased by about \$813,000 to \$8.5 million, and the referendum fund balance by about \$459,000 to \$2.6 million. The district's rainy day fund held approximately \$3.4 million at the end of 2017. The district ended 2017 with an available cash balance of \$14.5 million, which was strong, in our view, at 35% of combined general and referendum fund expenditures.

For 2018, the district expects to spend down reserves in the referendum fund to about \$500,000 as it completes larger capital projects that were started in 2017. The district estimates that the general fund balance will remain \$8.0 million to \$8.5 million, and has no plans to tap the rainy day fund. Based on management's projections, we estimate that the district would end 2018 with approximately \$12 million in available cash reserves, which represents about 30% of expenditures. The board aims to maintain the general fund cash balance at more than 15% of expenditures. The district also plans to maintain \$3.4 million in the rainy day fund and \$500,000 in the referendum fund through 2022,

when the referendum levy expires.

We note that the referendum levy was by-and-large a response to elevated circuit-breaker losses in several of the district's property-tax-supported funds (capital projects, transportation, and bus replacement). While circuit breaker losses declined in each year from 2013 to 2015, they have begun to increase again, jumping by \$1.1 million in 2017 to about \$4.0 million. The district's capital projects and transportation fund balances decreased by a combined \$1.1 million because of these losses. We believe that circuit breaker losses will remain a pressure for the district. If the district's property-tax-supported funds require support from the general or rainy day funds in the future and the district's reserves significantly decline, we believe the rating could come under pressure.

The state audits school districts 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 district'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 on the basis of the IOSF review and prior-year comparisons with audits we have deemed them reliable to serve as a basis of our analysis.

Management

We consider the district's management practices standard under our Financial Management Assessment (FMA) methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

Highlights include the use of historical data and external sources for revenue and expenditure forecasting, monthly reporting to the board on cash balances and budget performance by fund, and a board-adopted investment policy. In addition to the state-mandated three-year capital plan, the district recently implemented a five-year master facilities plan that identifies cost estimates and funding sources. The district lacks a financial plan that extends beyond the budget year and has only a limited debt management policy. The district's reserve target has not been formalized.

Debt

We consider overall net debt moderate at 3.2% of market value and low at \$1,964 per capita. With 91% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. The debt service carrying charge was 18.4% of total governmental fund expenditures excluding capital outlay, which we consider elevated, in calendar 2017.

We understand that the district plans to issue approximately \$19 million in additional debt over the next two years, though we believe its overall debt burden will remain moderate. The district has no privately placed or bank-purchased debt obligations.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of \$2.7 million, or 4.1% of total governmental expenditures, toward its pension obligations in calendar 2017.

The school district contributes to the Indiana Public Employees' Retirement Fund (PERF) on behalf of noncertified

staff and to the 1996 Indiana Teacher's Retirement Fund (TRF) on behalf of certified staff. The plans are multi-employer, cost-sharing defined benefit plans. As of June 30, 2017, the TRF fund was 90.4% funded and PERF was 76.6% funded in accordance with Governmental Accounting Standards Board Statement 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 district does not subsidize retiree health care.

Outlook

The stable outlook on the 'AA+' program rating reflects our view of the strength of the Indiana state aid intercept program. The rating is set one notch below and moves in tandem with the state ICR.

The stable outlook on the 'A+' underlying rating reflects our expectation that the district will maintain strong available cash reserves, despite pressure from circuit breaker losses and capital needs. We do not expect to change the rating in the two-year outlook horizon because we believe that the district's strong reserve position provides sufficient cushion in the event of unforeseen budget pressures.

Downside scenario

We could lower the rating if the district's cash reserves decline to levels comparable with those of lower-rated peers, which we believe could occur if circuit breaker losses significantly increase, or if growth pressures begin to stress the districts' operations.

Upside scenario

We could raise the rating if, all other rating factors equal, the area economy were to continue to diversify in meaningful ways beyond RV manufacturing and related industries, and if the district's economic metrics were to improve to levels comparable with those of higher-rated peers.

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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