S&P Global
Ratings

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Summary:

Kokomo School Corp., Indiana Kokomo-Center School Building Corp.; School State Program

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Kokomo School Corp., Indiana
Kokomo-Center School Building Corp.; School State Program

Credit Profile		
US$14.0 mil ad valorem prop tax 1st mtg bnds (Kokomo School Corporation) ser 2018 due 01/15/2037		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	A/Stable	New
Kokomo Sch Corp SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Outlook Revised
Kokomo-Ctr Sch Bldg Corp, Indiana		
Kokomo Sch Corp, Indiana		
Kokomo-Ctr Sch Bldg Corp SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Outlook Revised

Rationale

S&P Global Ratings revised its outlook on Kokomo School Corp., Ind.'s various outstanding debt obligations to stable from negative. At the same time, S&P Global Ratings affirmed its 'A' underlying rating on the debt.

The outlook revision reflects our view that the corporation's fiscal position strengthened in 2017 due to administration's emphasis on correcting the district's fiscal structure and plans to maintain budgetary balance.

S&P Global Ratings also assigned its 'A' underlying rating and 'AA+' long-term program rating to the corporation's $14 million ad valorem property tax first mortgage bonds series 2018 issued by Kokomo-Center Schools Building Corp., on behalf of Kokomo School Corp. In addition, S&P Global Ratings affirmed its 'AA+' long-term program rating on the district's previously issued bonds. The outlook on all ratings is stable.

We base the 'A' underlying rating on the ad valorem property tax pledge. The ad valorem property tax levy is not subject to annual appropriation under Indiana law. However, there is abatement risk, as 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 lease requiring the district to maintain at least two years of lease interruption insurance as well as casualty insurance equal to full replacement cost. In addition, the bonds are subject to construction risk. The bonds are structured so that lease payments do not begin until at least six months after estimated project completion; interest payments are capitalized through July 15, 2019, and partially through Jan. 15, 2020. All improvement and construction projects that the bond proceeds will cover will be finished by mid-2019.

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 Kokomo Schools to distribute circuit-breaker losses first across nondebt service funds that receive property taxes. We rate the debt at the same level as our rating on the district based on our view of the district's general creditworthiness.

The 'AA+' long-term 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 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 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.

The 'A' underlying rating reflects the district's:

- Manufacturing-based economy that is currently growing; and
- Moderate debt burden, coupled with rapid amortization.

We view the district's just adequate cash reserves, history of operating deficits, adequate but below-average income indicators, and moderately concentrated tax base as offsetting factors.

Economy

Kokomo School Corp. is located in north-central Indiana, 60 miles north of Indianapolis and 155 miles southeast of Chicago. The district serves approximately 45,608 residents in Center Township and portions of the city of Kokomo.

The regional economy relies heavily on auto manufacturing sector and most of the leading employers are manufacturing firms (including well-known names such as FCA [Fiat/Chrysler], Delphi Delco Electronics, and General Motors). The regional job base is vulnerable to economic swings, as demonstrated in the Great Recession when the unemployment rate peaked at 15%. Unemployment has been consistently improving over the past several years, however, and was down to 3.6% in 2017.

At 72% and 76% of national averages, respectively, the district's median household and per capita effective buying incomes are adequate in our view. Wealth levels on a per capita basis are strong, at $65,846 based on the gross assessed value of $3 billion in 2018. The district's tax base is moderately concentrated, with the top 10 largest taxpayers making up an estimated 34% of net assessed value. Management reports that leading taxpayers and employers are stable and that there are no issues with delinquencies or appeals. Without further diversification away from manufacturing, the economic metrics are not likely to improve. At the same time, if there is a prolonged downturn in manufacturing, it could have a negative impact on the rating.

Enrollment

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 that might be affected by circuit-breaker tax caps.

Kokomo School's enrollment has been generally declining for the past 10 years. Total enrollment came in at 5,738 students for the 2017-2018 school year, 12% lower compared to 2008-2009. Management projects enrollment to increase by approximately 20 students a year for the next five years based on internal projections that take into consideration increased preschool and kindergarten enrolment, new families moving into the district, and expansion of the internal program. The negative change in enrollment has been relatively consistent year-to-year historically and we believe enrollment declines could continue despite management's optimistic projections.

The district's circuit-breaker losses (21% of 2017 certified levies) are high and they limit the revenues available to fund transportation, bus replacement, and capital programs, which are all funded with local property taxes. Despite these limitations, the fund balances in all property tax-reliant funds are positive.

Finances

As expected, the district's financial position improved in 2017. Management attributes the improvement to better alignment of revenues and expenditures due to cost-containment efforts and stronger state aid revenues. The district's available cash reserve of $3.1 million (which consists of the combined general and rainy-day funds) is adequate on a cash basis of accounting, in our view, at 7.1% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, $2.4 million (5.5% of expenditures) is in the general fund, and $676,000 (1.6% of expenditures) is in the rainy-day fund.

Officials expect to maintain the fiscal balance in 2018 and 2019. Rainy-day fund reserves will likely remain at the current level or improve slightly. Management uses rainy-day fund reserves to finance capital projects and the ending cash balance tends to fluctuate.

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 prior-year comparisons with audits, they have been deemed 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.

Officials use five years of historical data and some external sources when preparing the budget. Management doesn't review budget-to-actual results with the school board but instead provides fund reports to the board monthly. The school corporation maintains a five-year facility plan that is reviewed annually and used as a tool in preparing the budget. The plan identifies significant projects and sources of funds but doesn't detail uses. Officials follow state guidelines when it comes to investment and debt management. Investment updates are provided to the board on an annual basis. No formal financial planning is performed. The corporation strives to maintain an operating fund balance of 8%-10% of operating expenditures, and while very close, the district did not comply with the target in 2017.

Debt

Overall net debt is 3.1% of market value and $2,052 per capita, which we believe to be moderate. Amortization is fairly rapid, with 61% of the corporation's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 8% of total governmental fund expenditures excluding capital outlay in calendar 2017, which we consider moderate. There are no additional debt issuance plans at this point.

Pension and other postemployment benefit liabilities

The school corporation contributes to two state-administered retirement plans: 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. 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% 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 Statements No. 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.

Outlook

The stable outlook on the long-term program rating reflects S&P Global Ratings' opinion of the strength of Indiana's state aid intercept structure. The stable outlook on the underlying rating reflects the district's recently improved reserves and management's commitment to budget stability. We believe that officials will avoid incurring structural deficits by making appropriate and timely budget adjustments. We do not expect to change the rating over the outlook's two-year period.

Downside scenario

If the district does not maintain balanced operations and fiscal misalignment leads to a drop in cash reserves, we could lower the rating.

Upside scenario

We could raise the rating if income indicators improve to levels that are commensurate with that of higher-rated peers and the district maintains at least adequate reserves.

Ratings Detail (As Of May 9, 2018)		
Kokomo Ctr Twp Cons Sch Corp GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Kokomo-Ctr Sch Bldg Corp, Indiana		
Kokomo Sch Corp, Indiana		
Kokomo-Ctr Sch Bldg Corp SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Outlook Revised
Kokomo-Ctr Sch Bldg Corp (Kokomo Sch Corp)		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Outlook Revised
Kokomo-Ctr Sch Bldg Corp (Kokomo Sch Corp)		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Outlook Revised
Kokomo-Ctr Sch Bldg Corp (Kokomo Sch Corp) ad valorem prop tax 1st mtg bnds (Kokomo School Corporation)		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Outlook Revised
Kokomo-Ctr Sch Bldg Corp (Kokomo Sch Corp) ad valorem prop tax 1st mtg bnds (Kokomo Sch Corp) ser 2016 due 01/15/2034		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A/Stable	Outlook Revised

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.