

RatingsDirect®

Summary:

**Alexandria School Building Corp.,
Indiana**

**Alexandria Community School Corp.;
School State Program**

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Credit Profile		
US\$9.365 mil unlt'd ad valorem prop tax 1st mtg bnds (Alexandria Comnty Sch Corp) ser 2018 due 01/15/2038		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	A/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term program rating and 'A' underlying rating to Alexandria School Building Corp., Ind.'s series 2018 unlimited ad valorem property tax first mortgage bonds, issued on behalf of Alexandria Community School Corp. The outlook is stable.

The series 2018 bonds are the first of two series of bonds which were approved by a voter referendum and will be used for various renovation and improvement projects across school facilities.

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

- Low overall debt profile and
- Strong combined available reserves on a cash basis of accounting.

Partially offsetting the above strengths are the school corporation's overall declining enrollment trend, which is the primary determinant of state aid, moderately concentrated tax base, and income and market value per capita indicators, which while at levels that we consider adequate, are not commensurate with those of higher rated peers.

The school corporation has been pressured in recent years from overall declines in enrollment, which is the primary determinant of state aid. As a result, the school corporation has decreased its combined general and rainy cash balances in each of the past three years. However, as a result of conservative budgeting practices and a proactive approach to expenditure reductions, the school corporation has maintained reserves at a level that we consider strong on a cash basis, despite the declines in enrollment. We view the school corporation's economic indicators and moderately concentrated tax base as credit weaknesses. However, the corporation's low overall debt profile and level of available reserves provide rating stability.

Security

The 'A' rating is based on the ad valorem property tax pledge. The 2018 bonds are payable by lease rental payments paid directly to an independent trustee pursuant to a trust indenture between the building corporation and the trustee and a lease between the school corporation and the building corporation. Rent is payable from ad valorem taxes

against all taxable property within the corporation'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 abatement risk is mitigated by lease provisions requiring the corporation 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. Additionally, there is construction risk given that lease payments will be dependent on project completion. However, the lease permits interim lease rentals to be paid until the project is completed as a result of the leased premises being occupied during construction, which meet or exceed debt service requirements. In our view, this mitigates the construction risk as debt service payments would not be disrupted by construction delays. As a result, we do not make a notch determination for the lease structure, and rate the bond's to our view of the school corporation's general creditworthiness.

As a result of being approved by a referendum, the ad valorem property tax pledge, which secures the series 2018 bonds is not subject to state circuit breaker limitations.

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

Alexandria Community School Corp. serves an estimated population of 8,412. At 86% and 84% of national averages, respectively, the corporation's median household and per capita effective buying incomes are adequate in our view. The corporation's total \$459.5 million gross assessed value (AV) in 2018 is adequate, in our view, at \$54,627 per capita. Net AV declined by a total of 1.6% since 2016 to \$308.7 million in 2018. Roughly 30.4% of net AV comes from the 10 largest taxpayers, representing a moderately concentrated tax base in our opinion.

The rural school corporation is located in Madison County in north central Indiana and comprises the city of Alexandria, the town of Orestes, and Monroe Township. The school corporation is located approximately 55 miles northeast of Indianapolis and 75 miles southwest of Fort Wayne. The school corporation contains a significant amount of agricultural land, and as a result of an ongoing state-wide reassessment of agricultural values, the school corporation's AV as declined slightly overall in recent years. Management expects overall stable AV over the next several years as a result of ongoing development, which is expected to offset any additional losses as a result of the

agricultural reassessment, which we view as likely. The top taxpayers include a food processing and distribution business (11.64% of AV) and an ethanol producer (9.94% of AV). While the overall tax base is at a level that we consider moderately concentrated, we recognize that its top taxpayers and overall economy have remained relatively stable in recent years, which we expect to continue.

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. Student enrollment has declined moderately in recent years, decreasing by 4.9% since 2015 to 1,522 students for the 2018-2019 school year. The school corporation attributes enrollment declines in part to an overall declining population and graduating larger than incoming classes. Additionally, the school corporation's enrollment fluctuates as a result of a significant migrant population, with higher number of students attending during better growing seasons. Overall enrollment decreases have moderated in recent years and management expects slight declines to continue for the next several years, which we view as likely. State aid accounted for 98.5% of general fund revenue in 2017.

The corporation's available cash reserve of \$3.7 million (which consists of the combined general and rainy day funds) is strong on a cash basis of accounting in our view, at 34% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, \$2.7 million (25% of expenditures) is in the general fund, and \$933,000 (8.6% of expenditures) is in the rainy day fund. The corporation reported a deficit operating result of 3.7% of expenditures in 2017.

Due in part to conservative budgeting practices and proactive expenditure reduction measures, in addition to a change in the computation of enrollment, which is the primary determinant of state aid, we expect that the corporation's available reserves will remain strong on a cash basis of accounting over the next few years.

In fiscal 2018, the school corporation expects to report at least a \$3.6 million available balance across its general and rainy day funds, conservatively expecting near balanced operating results. Despite decreases in available balance in each of the past three years, the expected breakeven performance results from a change at the state level to return to a single enrollment count to determine enrollment. In previous years, the state had utilized a blended approach, averaging a school's fall count and spring count to determine enrollment for funding purposes. Fiscal 2018 is the first year that the school corporation will benefit from the single fall count to determine enrollment as a result of its migrant population, which attends during the fall growing season. The school corporation has received higher state-aid revenue as a result. In recent years, the school corporation has also benefitted from conservative budgeting practices and expenditure reduction measures which have moderated the impact of the overall decline in enrollment. In fiscal 2019, management expects to report at least stable operations as a result of continued benefit from the change in enrollment count in addition to a slight, 11 student increase in enrollment for the fiscal 2019 year, which we view as likely. Additionally, we recognize that management does not intend to decrease its general fund or rainy day fund balances significantly in future years, intending to maintain a general fund balance above its target of maintaining reserves of at least 15% of operating expenditures, a level that we consider strong on a cash basis of accounting.

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 four years of history and the use of outside sources of information when forecasting trends;
- Monthly reporting to the board of budget to actual results with the ability to amend the budget as necessary;
- No comprehensive formal long-term financial plan past the budgeted year;
- The maintenance of a five-year capital plan, which is updated annually and identified expected project completion years, but funding sources and uses are not included;
- Adhering to state guidelines when making investments with annual reporting of investment holdings and earning to the board;
- No formal debt management policy, but it adheres to state limits; and
- Informal target of maintaining a general fund balance equal to at least 15% of operating expenditures for cash-flow needs and as a sufficient cushion for any unforeseen budgetary pressure; the school corporation is currently exceeding that target.

Debt

Overall net debt is low, in our opinion, at 2.9% of market value and \$1,609 per capita. Amortization is average, with 51% of the corporation's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 3.3% of total governmental fund expenditures, excluding capital outlay in calendar year 2017, which we consider low.

The school corporation intends to issue approximately \$9.9 million for the final series of referendum-approved bonds in spring 2019 for the completion of various capital projects. Additionally, management 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 3.5% 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 school corporation's required pension costs to increase significantly in the medium term.

The school corporation provides other postemployment benefits (OPEB) to eligible employees in the form of defined contribution matching and health insurance. OPEB costs totaled \$258,000 in fiscal 2017, equivalent to 1.6% of total funds' expenditures.

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, debt-service costs, 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 economic indicators were to improve significantly in conjunction with a consistent return to balanced operations, assuming no deterioration in the corporation's other credit factors, we could raise the rating.

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