S&P Global
Ratings

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Summary:

Portage Township Schools, Indiana; School State Program

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Summary:

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Credit Profile		
US$2.0 mil GO bnds ser 2018 dtd 12/11/2018 due 01/15/2022		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
Portage Twp Schs GO bnds ser 2018 dtd 12/11/2018 due 01/15/2022		
Long Term Rating	AA+/Stable	Rating Assigned
Underlying Rating for Credit Program	AA-/Stable	Rating Assigned
Portage Twp Multi-Sch Bldg Corp, Indiana		
Portage Twp Schs, Indiana		
Portage Twp Multi-Sch Bldg Corp SCHSTPR		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Portage Twp Multi-Sch Bldg Corp (Portage Twp Schs) ad valorem prop tax 1st mtg rfdg bnds (Portage Township Schools)		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA+' long-term program rating and 'AA-' underlying rating to Portage Township School (PTS), Ind.'s series 2018 general obligation (GO) bonds. At the same time, we affirmed its 'AA+' long-term program rating and 'AA-' underlying rating on PTS's existing limited tax debt. The outlook on all ratings is stable.

It is our understanding that the $2 million of bond proceeds will be used for renovations and improvements to its high school and three elementary school buildings including heating, ventilation, and air condition work along with the purchase of equipment.

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

- Stable local economy with access to the Chicago area economy;
- Adequate to good income indicators with strong market value per capita; and
- Strong reserves, including rainy day fund, albeit on a cash basis.

Partially offsetting the above strengths, in our view, are the PTS's declining enrollment in recent years, which is the primary determinate of state aid and moderate debt service carrying charge.

PTS is in a region, which is on the southern tip of Lake Michigan and part of a broad and diverse economy in the Chicago-Naperville-Elgin metropolitan statistical area. The district is surrounded by lakes and is a vacation destination especially in the summer. The local economy is stable with its major taxpayer being U.S. Steel Corp., and according to management the national tariffs are not expected to have a major negative affect on its local economy. The enrollment has been declining in recent years and this is the primary determinant of state aid that represents almost 97% of the general fund revenues. Despite declining enrollment, the school district has maintained good reserves, including rainy-day, in recent years. If future negative economic conditions lead to steeper-than-projected enrollment declines and this negatively affects its available reserves, the underlying rating could be pressured.

Security

The 'AA-' rating is based on the ad valorem property tax pledge that secures the 2018 GO bonds, which 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 corporation's general creditworthiness.

The district has prior transactions where by debt was issued for PTS through Portage Township Multi-School Building Corp. (school building corporation) whereby those 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 lease agreements between the school district and the school building corporation. Rent is payable 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 abatement risk is mitigated by 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.

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 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.

Economy

PTS serves an estimated population of 47,376. In our opinion the per capita effective buying income (EBI) is adequate at 83% of the national level while the median household EBI is good at 100% when compared to the national level. Gross AV in 2018 totaled $3.2 billion, which we consider strong at $67,348 per capita. Net AV has grown by nearly 7% since 2016 to $1.8 billion. The tax base is diverse, in our view, with the 10 largest taxpayers accounting for approximately 16.3% of net AV.

PTS serves residents of the city of Portage, the town of Ogden Dunes, and the unincorporated areas of Portage Township located entirely within Porter County. Along with local employment, residents benefit from access to larger and more-diverse employment opportunities in the Chicago area. Leading local employers include PTS (1,065 employees); U.S. Steel Corp. (910), and Porter County (909).

According to officials, leading employers have been stable or expanding. In 2017, Porter County unemployment was 4.1%, which was above the state's 3.5% and slightly below the nation's 4.4% average for the same time period. Based on recent trends, we anticipate that the economy will remain stable over the next few years.

Finances

General fund operations of Indiana school corporations 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. Average daily membership (ADM) for 2019 totaled 7,480 and has declined each year since 2016 for a total loss for that time period of about 4%. Officials attribute the enrollment decline to competition from a nearby charter school as well as a nearby public district. The school district does not participate in the open enrollment system and currently has no plans to change this. Management has indicated that local residential home developments will generate more families to the area and thus believes enrollment will hover at about 7,500 students over the next five years. We will continue to monitor the enrollment trends as it represents at least 97% of the total general fund revenues.

For calendar 2019, the school district has stated that it expects to adopt a balanced budget without the use of any its reserves, in its general or rainy day funds. It typically comes in under its budgeted expenses and we expect this trend to continue.

For the current calendar year, 2018, it expects the available general fund cash reserve balance to approximately $14.7 million after a transfer out of $3.5 million to its rainy day fund as well as restructuring its teacher salaries. The district knew it was going to utilize its rainy day fund to help with projects to its high school instead of issuing debt. The original budget was to use $6.8 million of rainy day reserves but the projection is to use nearly $3 million. On a combined basis, the available reserves should be about $24 million, or 45% of operating expenses, which we consider strong. Officials have stated it informally seeks to keep the available reserves between 20% and 25% of operating expenses. If enrollment declines continue, the district will most likely employ an attrition related approach to contain expenses.

The corporation's available cash reserve of $30.8 million at the end of calendar 2017 (which consists of the combined general and rainy day funds) is strong on a cash basis of accounting in our view, at 58% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, $18.6 million (35% of expenditures) is in the general fund, and $12.2 million (23% of expenditures) is in the rainy day fund. PTS reported a deficit operating result of 0.24% of expenditures in 2017. Officials stated the use of cash reserves were planned for capital improvements.

The state audits school corporations biennially on a cash basis, using a June 30 fiscal year end, but the school corporations operate, budget, and report financial performance to their school boards for the calendar year and submit annual Dec. 31 year-end cash basis financial statements to the state. We believe that the resulting state-issued (although unaudited) Dec. 31 year-end cash statements offer a better understanding of each corporation's financial performance and, accordingly, we use these reports as the basis of our analysis.

Management

We consider the corporation'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.

Management uses historical trends to formulate budget assumptions on a line-by-line basis and uses some outside sources. For enrollment, there are no internal or external projections performed on a regular basis, which we believe is a limitation. Management provides monthly reports to the school board on budget performance. The district does not maintain a long-term financial plan. It also maintains a state-mandated, three-year capital plan. The district has a formal investment policy with bi-annual reporting, but lacks debt and reserve policies. Informally, the district aims to maintain general fund reserves at 20%-25% of operating expenses, which it has maintained higher than this amount for the past three years.

Debt

With this debt issuance the school corporation's direct debt increased to $44.6 million and the overall debt is moderate, in our opinion, at 3.3% of market value and more moderate at $2,238 per capita. With 95% of PTS direct debt scheduled to be retired within 10 years, amortization is very rapid. The debt service carrying charge was 10% of total governmental fund expenditures excluding capital outlay in fiscal 2017, which we consider moderate. It is our understanding that the school district could issue debt over the next two years for additional capital improvements but at this time there is no dollar amount estimated. We understand that the district privately placed a 2016 lease rental debt transaction and there were no acceleration provisions that could cause any liquidity concerns for the district.

Pension and other postemployment benefit liabilities

The school district 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.

PTS continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was equal to 3.7% 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. Pension pressures in the state are minimal. The pension carrying charge is low, so any increased costs resulting from a low funded ratio would likely not present an immediate, large budget impact on the district. The district doesn't subsidize retiree health care 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 make the necessary adjustments in spite of any enrollment declines so as to 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, significant capital spending, or another budgetary pressure leads to a material decrease in the district's strong level of available reserves.

Upside scenario

A stronger economy with higher incomes and reserves that are on levels with higher rated peers, coupled with stabilization in enrollment and more robust management policies, could cause us to consider raising the rating.

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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