

RatingsDirect®

Summary:

Portage Township Multi-School Building Corp., Indiana Portage Township Schools; School State Program

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Portage Township Multi-School Building Corp., Indiana

Portage Township Schools; School State Program

Credit Profile

US\$24.13 mil ad valorem prop tax 1st mtg rfdg bnds (Portage Township Schools) ser 2017 due 01/15/2029

<i>Long Term Rating</i>	AA+/Watch Neg	New
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
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Portage Twp Multi-Sch Bldg Corp, Indiana

Portage Twp Schs, Indiana

Portage Twp Multi-Sch Bldg Corp (Portage Twp Schs) GO

<i>Unenhanced Rating</i>	AA+(SPUR)/Watch Neg	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'AA-' underlying rating to Portage Township Multi-School Building Corp., Ind.'s series 2017 ad valorem property tax first mortgage refunding bonds, issued for Portage Township Schools.

At the same time, we affirmed our 'AA-' underlying rating, with a stable outlook, on previously issued bonds.

The 'AA+' enhanced rating is based on the school district's meeting our Indiana State Aid Intercept program rating criteria and having state aid cover maximum annual debt service by more than 2x. The rating further reflects our view of the availability of state aid to be intercepted to cover debt service payments. Currently, all our enhanced ratings on Indiana school districts are on CreditWatch with negative implications. (For more information, see the media release, "Indiana School Corp. 'AA+' Debt Ratings On Watch Neg Due To Uncertainty About Timeline For Available State Aid Payments", published Feb. 9, 2017, on RatingsDirect.)

The series 2017 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. Bond proceeds will be used to refund outstanding bonds for interest-cost savings.

The series 2017 bonds, as well as existing debt, are secured by ad valorem property tax revenues, subject to the state

circuit breaker, which places caps on the tax burden for individual properties based on the class of property. However, debt service is required to be funded first, with revenue losses from the circuit breaker first being applied to nondebt service levies. Factoring in these protections, as well as the county's financial stability and flexibility, we rate this limited-tax pledge at the same level as an unlimited-tax rating.

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

- Access to the Chicago area economy; and
- Strong reserves on a cash basis of accounting (over 60% of operating expenditures including reserves in the rainy-day fund at the end of 2016).

Limiting the rating is the school corporation's declining enrollment, which directly affects funding. Despite enrollment declines, the district has been able to maintain robust reserves and generate operating surpluses for seven consecutive years. The district's adequate to good income levels and just strong wealth levels which are not comparable with those of 'AA' or higher-rated peers limit the rating's upward potential.

Economy

Portage Township Schools School serves an estimated population of 47,489. The school corporation is located in the city of Portage in northwest Indiana, approximately 44 miles southeast of Chicago and 58 miles west of South Bend, Ind. The city is home to the international Port of Indiana. The city's beaches that are located on Indiana Dunes national lakeshore attract a lot of tourists year round and especially in summer. The economy is fairly diverse. The top three employers are Solid Platforms Inc. (scaffolding services, 1,429 employees), the school district itself (1,076), and U.S. Steel Corp. (steel distributor, 905 employees). District residents have access to the broad and diverse Chicago metropolitan area; however, most seek employment locally.

The median household effective buying income in the corporation is 106% of the national average, and the per capita effective buying income in the district is 90% of the national average, both of which we consider good. At \$65,011 per capita, the 2017 gross assessed value totaling \$3.1 billion is, in our opinion, strong. The 4.78% increase since 2015 brought net assessed value to \$1.8 billion in 2017 (the most recent year available). The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 15.2% of net assessed value. Unemployment, although relatively low at 5.3% in 2016, has recently been tracking above state and national rates.

Finances

The state audits school corporations biennially on a cash basis, using a June 30 fiscal year-end, although they 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.

General fund operations of Indiana school corporations rely almost entirely (97%) on state tuition support, which is determined on a per-pupil basis. As a result, operating revenue is very sensitive to enrollment fluctuations. Student enrollment for 2017 totaled 7,721. Enrollment has been declining 1%-2% a year for the past five years. The 2016 increase is attributable to the change in the funding formula. The school district's boundaries are closed right now.

Opening the boundaries could potentially reverse the enrollment trend, according to management.

The district's financial performance has remained strong over an extended period.

Despite enrollment declines, the district has been able to maintain robust reserves and produce operating surpluses in the general fund for seven consecutive years. The district's leaders are generally conservative on the expenditure side. An overhaul of its health insurance options for employees in 2012 helped generate nearly \$1 million in annual savings for the district.

The corporation's available cash reserve of \$32.4 million (which consists of the combined general and rainy day funds) is strong on a cash basis of accounting in our view, at 63% of general fund expenditures at calendar 2016 year-end. Of that amount, \$18.8 million is in the general fund, and \$13.6 million is in the rainy-day fund. Officials managed to add another \$1 million to general fund reserves in 2016. The rainy-day fund declined \$4 million 2016 due to capital spending on the middle and high schools' construction projects. Officials expect to see nearly break-even operations in 2017 and 2018 in the general fund, while rainy-day fund could again decline. At a minimum, the reserves will stay at the district's informal cash flow target range of 20%-25% of operating expenditures. We view the robust reserves and consistent operating surpluses as credit strength.

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.

Management uses historical and outside information to formulate budget assumptions, but no external or internal enrollment projections are performed on a regular basis, which we believe is a limitation. The district maintains a state-mandated three-year capital plan and investment and debt policies compliant with the state code. In addition, the district adopted its own investment management policy. Management does not have a formalized long-term financial plan for the general fund. Budget-to-actual results are shared with the board monthly. The board receives a full investment report twice a year. Management targets to maintain 20%-25% of operating expenditures in general fund reserves.

Debt

At 3.4% of market value and \$2,240 per capita, overall net debt is moderate, in our view. Amortization is rapid, with 88% of the corporation's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 9.1% of total governmental fund expenditures excluding capital outlay in calendar 2016, which we consider moderate.

Officials could issue \$2 million to \$4 million in general obligation bonds over the next two years. The district doesn't have any direct purchase obligations.

Pension and other postemployment benefit liabilities

In calendar 2016, the corporation paid its full required contribution amounting to 3.6% of total governmental expenditures, toward its pension obligations.

The school district contributes to three state plans: pre-1996 TRF (30.4% funded with an unfunded actuarial accrued liability, or UAAL, of \$11,846 million), 1996 TRF (92.5% funded, UAAL \$445 million), and PERF (nonteaching

employees, 78.6% funded, UAAL \$3,849 million). The pre-1996 TRF plan is closed and currently operates as a pay-as-you-go account. The 1996 TRF account was established to be actuarially prefunded. The pension carrying charge is low, so any increased costs due to a low funded ratio would likely not have a large budget impact in the short term.

Outlook

The long-term rating reflects S&P Global Ratings' assessment of the strength of the state aid intercept structure. The rating moves in tandem with the state issuer credit rating and outlook. Currently, the long-term rating is on CreditWatch, which means there is a one-in-two chance the rating could change within 90 days.

The stable outlook on the 'AA-' underlying rating reflects our expectation that the school corporation will continue to carry at least strong combined general and rainy-day fund cash reserves pursuant to its general fund target. As such, we don't expect to change the rating during our two-year horizon.

Downside scenario

If reserves fall quicker than anticipated and stabilize at a much lower level, or below the targeted 20%-25% of operating expenditures, we could consider a downgrade.

Upside scenario

If economic metrics improve to levels comparable with peers rated 'AA' or higher, we could consider an upgrade.

Ratings Detail (As Of April 24, 2017)

Portage Twp Multi-Sch Bldg Corp, Indiana

Portage Twp Schs, Indiana

Portage Twp Multi-Sch Bldg Corp SCHSTPR

<i>Unenhanced Rating</i>	AA+(SPUR)/Watch Neg	Affirmed
Portage Twp Multi-Sch Bldg Corp (Portage Twp Schs) ad valorem prop tax 1st mtg rfdg bnds (Portage Township Schools) ser 2016B due 01/15/2028		
<i>Long Term Rating</i>	AA+/Watch Neg	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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