

RatingsDirect®

Summary:

**Jennings County School Corp.,
Indiana**

**Jennings County School Building
Corp.; School State Program**

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Credit Profile

US\$2.0 mil 1st mtg bnds (Jennings County Schools Corporation) ser 2017A due 01/15/2028

<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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US\$1.8 mil 1st mtg bnds (Jennings Cnty Schs Corp) ser 2017D due 01/15/2028

<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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US\$1.55 mil 1st mtg bnds (Jennings Cnty Schs Corp) ser 2017B due 01/15/2028

<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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US\$1.45 mil 1st mtg bnds (Jennings Cnty Schs Corp) ser 2017E due 01/15/2028

<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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US\$1.2 mil 1st mtg bnds (Jennings Cnty Schs Corp) ser 2017C due 01/15/2028

<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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Jennings Cnty Sch Bldg Corp, Indiana

Jennings Cnty Schs Corp, Indiana

Jennings Cnty Sch Bldg Corp SCHSTPR

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'A+' underlying rating for credit program to Jennings County School Building Corp., Ind.'s series 2017A-E first-mortgage bonds, issued for Jennings County School Corp. At the same time, we affirmed our 'AA+' and 'A+' ratings on the school corporation's existing debt. The outlook on all ratings is stable.

The 'AA+' rating is based on the school corporation meeting our Indiana State Aid Intercept program rating criteria and on our assessment of the strength of the state aid intercept structure based on Section 20-48-1-11 of the Indiana Code. The enhanced rating reflects coverage of at least 2x maximum annual debt service (MADS) using state aid appropriated and allocated for distribution to the school district (in the state's fiscal year). Additionally, appropriated yet undisbursed state aid also provides at least 1x coverage of the maximum semiannual debt service payment. 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 of the state's issuer credit rating (ICR), as we consider this to be the equivalent to the appropriation rating and outlook of the state.

The series 2017A-E bonds and existing debt are secured by lease-rental payments payable from ad valorem property taxes levied against all taxable property within the corporation. The lease payments are mandatory and are not subject to appropriation. 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.

The ad valorem property taxes securing all the debt are subject to state circuit-breaker limitations, which require taxpayers to pay only up to a statutorily defined share of their property's gross assessed value (AV) and can result in a reduction in the corporation's aggregate tax levy. The levy to cover debt service, however, is statutorily protected, requiring the corporation to distribute circuit-breaker losses first across nondebt service funds that receive property taxes. This, in our view, mitigates potential effects the circuit breaker could have on debt payments. We believe the district possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax GO bonds.

We understand district officials will use series 2017A-E bond proceeds to finance various renovation projects throughout the school corporation, including HVAC, lighting, roofing, and athletic facilities. All projects are anticipated to be completed by December 2017, and lease payments begin in June 2018. The leased premise will remain in full use and occupied during the project period.

The 'A+' underlying rating reflects our view of the school corporation's own creditworthiness, including its:

- Adequate incomes and market value per capita;
- Trend of balanced operating results, which supports a strong available reserve position (factoring the use of cash accounting); and
- Low debt burden and low debt service carrying charges, along with rapid amortization.

The school corporation's declining enrollment, which directly affects operating revenues, is a constraining credit factor.

Economy

The school corporation serves all of Jennings County, which spans 378 square miles in southeastern Indiana. Incorporated communities include North Vernon and the town of Vernon, and the estimated population is 27,795. At 84% and 71% of national averages, respectively, the corporation's median household and per capita effective buying incomes are adequate, in our view. Unemployment traditionally is above average, but is coming down. The 2016 county unemployment rate averaged 4.8% (down from 10.3% as recently as 2012), compared to state and national averages of 4.4% and 4.9%, respectively. Manufacturing is the predominant employment sector, accounting for 18% of the labor force. A majority of the leading employers are small manufacturing firms, though a Lowes distribution center (700 jobs) and the school corporation (603) are the two largest employers. We understand the community has a high

transient population, factoring into the traditionally higher unemployment.

The tax base fell 1.4% over the last two years, and pay 2017 net AV is \$851.9 million. The 2017 market value (gross AV less tax-exempt properties) totals \$1.4 billion, equating to, in our opinion, an adequate \$50,782 per capita. Roughly 16.2% of net AV comes from the 10 largest taxpayers, representing a diverse tax base, in our opinion.

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 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 99.1% of general fund revenue in 2016. Enrollment declined every year, with the exception of one, since the fall 2007 school year. Fall 2016 enrollment was 4,379, compared to 5,317 in 2007 (17.6% decline). According to management, the school corporation's enrollment spiked and then peaked in the mid-2000s following the development of a lakefront mobile-home park, but this has since closed down and enrollment has been declining since. Management is projecting stable enrollment from now on, citing recent new job announcements and the moderating pace of declines in recent years. Over the last three years, enrollment fell by 4.2%, 1.8%, and 0.3%, respectively. In our view, the possibility of further enrollment declines remains a risk and negative credit factor.

The school corporation closed calendar year 2016 with a \$2.9 million general fund cash balance (10% of expenditures) and a \$3.8 million rainy day fund (13.2%), placing the total available reserve position at \$6.7 million, or a strong 23.2% of expenditures. The operating budget has been balanced each of the last three years, and 2016 produced a 7.6% surplus (\$2.2 million), after adjusting for a mismatch in timing of year-end cash transfers. The school corporation's legacy self-insurance fund has a negative cash position and at the end of each year, the general fund transfers cash into the fund so that it has an approximate zero balance, and shortly thereafter, the cash is transferred back to the general fund. For example, the 2016 year-end general fund cash balance of \$2.9 million is after a \$2.17 million transfer to the self-insurance fund, which was repaid during the first week of January 2017. We are not adjusting the year-end general fund cash balance to include this amount, given the deficit cash position in the self-insurance fund is an ongoing liability. Management indicated that it may make a permanent transfer from the rainy day fund to close this deficit. Ultimately, the ongoing available cash reserve may continue to grow, however, given management's expectations for surplus results in 2017 and continued annual transfers into the rainy day fund of surplus dollars from the transportation fund.

Management has been able to maintain balanced operating results in recent years, despite declining enrollment and state aid, mostly through attrition-driven staff reductions and limited salary increases. It targets keeping the general fund above 8% of expenditures and the combined general and rainy day fund in the 16% to 25% range. Both of these targets have been maintained, and we expect that they will continue to be met.

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 has not formally adopted investment, debt, or reserve policies, but it adheres to state statute for managing investments and issuing debt, and it has an informal reserve target that it is meeting. Each month, the school board receives a report noting year- and month-to-date revenues and expenditures, but there is no comparison to the budget or historical figures. The reports detail monthly cash balances, but there is no detail on specific cash and investment holdings. Management maintains rolling financial projections that look at the current year and two additional years, but this is not necessarily shared with the board or part of formal budgeting. The school corporation has a three-year-rolling plan for its capital projects fund, in line with state requirements, and it also has long-term technology and roofing plans. For budgeting, management keeps several years of historical data and internally projects enrollment out for multiple years. In our view, the management team has proven an ability to effectively manage revenue challenges and it is likely equipped to continue to do so, despite some policies, reporting, and planning practices not being highly formalized.

Debt

Overall net debt is 2.7% of market value and \$1,370 per capita, which we believe to be low. With 93% of the corporation's direct debt scheduled to be retired within 10 years, amortization is rapid. Although amortization is rapid, debt service carrying charges were only 6.3% of total governmental fund expenditures (excluding capital outlay) in calendar year 2016, which we consider low. There are no additional debt plans at this time. In addition, the school does not have any direct-purchase debt obligations.

Pension and other postemployment benefit liabilities

The school corporation 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 multiemployer, defined-benefit cost-sharing plans. PERF is funded at 79% and TRF at 92%. The school continues to meet 100% of its annual required contribution costs, equal to about \$2.1 million, or 3.9% of total governmental expenditures. We do not anticipate that pension costs will increase at a rapid level in the near term. The school does not subsidize retiree health care.

Outlook

The stable outlook on the 'AA+' ratings reflects S&P Global Ratings' assessment of the strength of the state aid intercept framework. It also reflects our view that annual state aid and undisbursed state aid for the school corporation will continue to provide sufficient coverage. In addition, it reflects our expectation that the state will remain committed to funding school corporations and to adopting budgets in a timely manner. The 'AA+' rating and outlook move in tandem with the state ICR and outlook.

The stable outlook on the 'A+' rating reflects our expectation that the school corporation will maintain its strong available cash reserve, despite the potential for continued enrollment declines. We recognize that the declines are moderating, and that if they continue, management will likely keep reducing expenditures to keep operations balanced.

As such, we do not anticipate rating movement within the two-year outlook horizon.

Downside scenario

If economic conditions deteriorate or enrollment declines continue, or should other budget pressures arise, and operations are not able to be kept in balance, the rating could be negatively pressured.

Upside scenario

Though not likely within the outlook period, improved economic indicators, combined with stabilizing enrollment, improved cash reserves, and more formalized financial management practices, could potentially lead to a higher rating.

Ratings Detail (As Of August 7, 2017)		
Jennings Cnty Sch Bldg Corp, Indiana		
Jennings Cnty Schs Corp, Indiana		
Jennings Cnty Sch Bldg Corp SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Jennings Cnty Sch Bldg Corp (Jennings Cnty Schs Corp) 1st mtg bnds (Jennings Cnty Schs Corp)		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Jennings Cnty Sch Bldg Corp (Jennings Cnty Schs Corp) 1st mtg bnds (Jennings Cnty Schs Corp)		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Jennings Cnty Sch Bldg Corp (Jennings Cnty Schs Corp) sch prgm		
Unenhanced Rating	AA+(SPUR)/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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