S&P Global
Ratings

RatingsDirect®

Summary:

Washington Township Metropolitan School District, Indiana; School State Program

Primary Credit Analyst:
Taylor Budrow, Chicago 312-233-7082; taylor.budrow@spglobal.com

Secondary Contact:
Benjamin D Gallovic, Chicago 312.233.7070; benjamin.gallovic@spglobal.com

Table Of Contents

Summary:

Washington Township Metropolitan School District, Indiana; School State Program

Credit Profile		
US$14.0 mil unltd GO bnds ser 2017 due 01/15/2020		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
US$2.0 mil GO bnds ser 2017 due 01/15/2019		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
North Cent Campus Sch Bldg Corp, Indiana		
Washington Twp Metro Sch Dist, Indiana		
North Cent Campus Sch Bldg Corp (Washington Twp Metro Sch Dist) GO State Credit Enhancement		
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'AA-' underlying rating to Washington Township Metropolitan School District, Ind.'s series 2017 general obligation (GO) and series 2017 unlimited GO bonds. At the same time, S&P Global Ratings affirmed its 'AA+' and 'AA-' ratings on the district's existing debt issued on behalf of the school corporation. 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 2.00x 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 1.00x 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 'AA-' underlying rating reflects our opinion of the district's:

- Participation in the Indianapolis metropolitan statistical area (MSA) economy and very strong per capita market value (gross assessed value [AV]);
- Stable enrollment, which lends additional stability to district finances;
- Strong operating reserves in the general, referendum, and rainy day funds; and

- Low-to-moderate overall debt burden.

Partially offsetting the above strengths, in our view, are the school corporation's income indicators, which while at levels that we consider adequate to strong, are not consistent with higher rated peers.

The 2017 GO bonds are secured by a pledge of ad valorem property taxes levied against all taxable property within the corporation and will be used for various capital purchases as well as for various renovation and repair projects. The ad valorem property taxes securing the bonds are subject to state circuit-breaker limitations, which require taxpayers to pay only up to a statutorily defined share of their property's gross 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 school corporation possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax GO bonds.

The 2017 unlimited GO bonds are the first portion of a $185 million construction project referendum which was approved by voters in November 2016. The referendum was approved for various school building construction and improvement projects with the series 2017 unlimited GO bonds being used towards the construction of two elementary school buildings. The bonds secured by a pledge of unlimited ad valorem property taxes to be levied on all taxable property within the corporation.

Economy

Washington Township Metropolitan School District serves an estimated population of 90,039. In our opinion, median household effective buying income (EBI) is adequate at 89% of the national level, but per capita EBI is strong at 114%. Gross AV totaled $8.3 billion in 2017, which we consider very strong at $91,981 per capita. Net AV grew by a total of 0.5% since 2015 to $5.9 billion in 2017. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 10.3% of net AV.

The school corporation is located in Marion County, in the north central portion of the city of Indianapolis and approximately 9 miles north of downtown. Residents benefit from the employment opportunities afforded by their participation in the Indianapolis economy. The corporation's AV has increased in recent years and management expects slight to stable increases to continue as a result of ongoing development, primarily residential, as well as ongoing redevelopment, which we view as likely.

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 (as well as annual June 30 year-end) cash-basis financial statements to the state. We believe that the unaudited Dec. 31 year-end cash statements offer a better understanding of each corporation's financial performance and, accordingly, we use these reports for our analysis. The reports prescribe to the state's uniform system of accounting and reporting that all local governments, including school districts, are required to follow.

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. Student enrollment for 2017 totaled 11,416. Enrollment increased overall from 2013 to 2017. Historically, state aid has accounted for more than 90% of the corporation's general fund revenues.

We recognize that slight fluctuations in enrollment are likely between years, but that overall trends will remain at least stable over the next two years. The corporation attributes its overall enrollment growth in recent years to its stable resident base with an increase in out-of-district students who have transferred to the corporation. The corporation is an overall gainer from out-of-district students, annually gaining approximately 650 more students than it loses to other districts. We understand that the number of out-of-district students accepted each year is driven primarily by the corporation's capacity. We expect that the new elementary school construction will alleviate capacity constraints and enable the corporation to report at least stable enrollment.

The corporation's available cash reserve of $25.7 million (which consists of the combined general, rainy day, and referendum funds) is strong on a cash basis of accounting in our view, at 32% of general fund expenditures at calendar year-end (Dec. 31) 2016. Of that amount, $14.3 million (18% of expenditures) is in the general fund, $8.7 million (11% of expenditures) is in the referendum fund, and $2.8 million (3.4% of expenditures) is in the rainy day fund. The corporation reported a surplus operating result of 1.8% of expenditures in 2016.

We expect that the corporation's available reserves will remain strong. For fiscal 2017, the corporation expects to add to its available cash balance as a result of the corporation's conservative budgeting practices, as well as its stable economic base. In fiscal 2018, the corporation expects to report a similar result and is expecting at least stable cash balances, which we view as likely. The corporation has a history of conservative budgeting and reporting better-than-budgeted results. The conservative budgeting practices as well as savings achieved through attrition were the primary drivers for the corporation's additions to available cash in fiscals 2015 and 2016.

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:

- Strong revenue and expenditure assumptions with the use of three years of history, conservative estimates, and the use of outside sources of information when forecasting trends;
- Quarterly reporting of budget-to-actual results to the board with the ability to amend the budget as needed;
- No comprehensive formal long-term financial plan past the budgeted year;
- Maintenance of the state-mandated three-year capital plan as well as a plan for referendum revenues, but nothing comprehensive and more long-term;
- Formal investment management policy, which mirrors state guidelines with annual reporting of investment holdings and earnings to the board;
- No formal debt management policy, but adhering to state limits; and
- Formal reserve policy of maintaining at least 5% of operating expenditures as a sufficient budgetary cushion.

Debt

Overall net debt is 4.3% of market value and $3,974 per capita, which we believe to be moderate. With 96% 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 6.1% of total governmental fund expenditures, excluding capital outlay in calendar year 2016, which we consider low.

We understand that the corporation expects to issue approximately $171 million in additional debt over the next five to seven years, with approximately $30 million to $40 million expected to be issued in 2018. The additional debt issuance is for the completion of various voter-approved construction and renovation projects.

We understand that the corporation maintains two privately placed issuances. In March 2017, the corporation privately placed $38 million with Key Government Finance, Inc. to advance refund the district's 2006 and 2008 bonds for interest cost savings. $36 million is currently outstanding and matures in 2028. The other privately placed issue was $2 million placed with Regions Equipment Finance Corporation in December 2016 for the purchase technology and equipment as well as for facility repairs and renovations, of which $1 million is currently outstanding and will mature in January 2018. We recognize that neither of the privately placed issuances contains any payment provisions that change on the occurrence of certain events.

Pension and other postemployment benefit liabilities

The school corporation contributes to the Indiana Public Employees' Retirement Fund (79% funded in 2016) and Indiana Teachers' Retirement Fund (92% funded in 2016), both state-administered cost-sharing pension plans. Plans are well funded, so pension pressures in the state are minimal.

The corporation paid its full required contribution of $6.6 million toward its pension obligations in calendar year 2016, or 4.3% of total governmental expenditures. Contributions have been stable in recent years, with only slight increases; we expect contributions to increase at similar levels in future years.

Outlook

The stable outlook on the program rating reflects our assessment of the strength of Indiana's state-aid intercept structure, and our expectation that the corporation will maintain its eligibility to participate in the program. The outlook on the underlying rating reflects our opinion that the school corporation will maintain at least balanced operations across its operating funds and strong reserves on a cash basis of accounting. As such, we do not expect to change the rating during the two-year outlook horizon.

Downside scenario

If the corporation experiences a decline in enrollment or another budgetary pressure, which leads to a significant decline in available reserves, we could lower our rating.

Upside scenario

We could raise the rating if the corporation's economic indicators increase significantly in conjunction with maintenance of its currently strong available reserves.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of October 20, 2017)		
Washington Twp Metro Sch Dist unltd GO bnds ser 2017 due 01/15/2020		
Long Term Rating	AA+/Stable	Rating Assigned
Underlying Rating for Credit Program	AA-/Stable	Rating Assigned
Washington Twp Metro Sch Dist GO bnds ser 2017 due 01/15/2019		
Long Term Rating	AA+/Stable	Rating Assigned
Underlying Rating for Credit Program	AA-/Stable	Rating Assigned

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.