S&P Global
Ratings

RatingsDirect®

Summary:

Brownsburg Community School Corp., Indiana; Note; School State Program

Primary Credit Analyst:
Anna Uboytseva, Chicago (1) 312-233-7067; anna.uboytseva@spglobal.com

Secondary Contact:
Benjamin D Gallovic, Chicago + (312) 233-7070; benjamin.gallovic@spglobal.com

Table Of Contents

Summary:

Brownsburg Community School Corp., Indiana; Note; School State Program

Credit Profile		
US$24.0 mil BANs (Brownsburg Comnty Sch Corp) ser 2018 due 05/15/2019		
Short Term Rating	SP-1+	New
US$7.0 mil GO bnds ser 2018 due 01/15/2027		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	A+/Stable	New

Rationale

S&P Global Ratings assigned its 'A+' underlying rating for credit program and 'AA+' long-term rating to Brownsburg Community School Corp., Ind.'s $7 million series 2018 general obligation (GO) bonds. S&P Global Ratings also assigned its 'SP-1+' short-term rating to the district's $24 million series 2018 bond anticipation notes (BANs). In addition, S&P Global Ratings affirmed its 'A+' underlying rating and 'AA+' long-term rating on the district's previously issued bonds. The outlook on all long-term ratings is stable.

The series 2018 GO bonds are payable from ad valorem property taxes levied on all taxable property within the school corporation. The bond proceeds will be used to finance various other improvement projects.

The ad valorem property tax pledge 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 Brownsburg Community Schools to distribute circuit-breaker losses first across nondebt service funds that receive property taxes. We rate the debt at the same level as our rating on the district based on our view of the district's general creditworthiness. 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 advent 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 have reviewed the 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 if 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.

The 'SP-1+' short-term rating reflects our view of the district's strong capacity to pay principal and interest when the notes come due. The district maintains, in our view, a low market-risk profile, since it has the strong legal authority to issue long-term debt to take out the notes. It also provides disclosure regularly to market participants. The district's current market confidence exposure is low because the BANs account for only 12.5% of the district's debt portfolio. Principal and interest on the series 2018 BANs will be payable solely from the proceeds of ad valorem property tax first mortgage bonds, which are expected to be issued in late 2018. All legal steps have been completed for the bonds issuance. Officials will use bond proceeds to provide various renovations and improvements to a high school and to construct a new elementary school.

Previously rated debt obligations are secured by lease rental payments payable from ad valorem property taxes levied against all taxable property within the school corporation. The tax levy is not subject to annual appropriation under Indiana law. However, there is abatement risk because the district is required to abate lease rentals in the event the leased premise is not available for use. This risk is mitigated, in our view, by the leases requiring the district to maintain at least two years of lease interruption insurance as well as casualty insurance equal to full replacement cost.

The 'A+' underlying rating reflects our opinion of the district's:

- Participation in the deep and diverse Indianapolis metropolitan statistical area (MSA);
- Economic indicators that range from strong to very strong;
- Growing enrollment, which is a key factor in the state's funding formula; and
- Available cash balance that is good when combining general and rainy-day fund balances on a cash basis of accounting.

Constraining the rating are elevated debt service carrying charges and a high debt burden, brought on by a growing community and subsequent capital needs. In addition, while we consider cash reserves good, they are below average compared with those of higher-rated peers, and this limits the rating as well, in our opinion.

Economy

Brownsburg Community School Corp. is the approximately 52-square-mile school district located in Hendricks County. It is about 15 miles west of Indianapolis, so it is a bedroom community. Due to its relative affordability, strong school reputation, and convenient geographic location, this area is one of the fastest growing in the Indianapolis MSA; the total population has increased 65% since 2000 and there are no indications that the current rate of growth will slow in the near future. Officials recorded the highest number of building permits issued in 2016 and believe they are on track to exceed that record in 2017.

Brownsburg Community School Corp. serves an estimated population of 44,795. In our opinion, median household effective buying income (EBI) is very strong at 131% of the national level, but per capita EBI is good at 106%. At $79,257 per capita, the 2017 gross AV totaling $3.6 billion is, in our opinion, strong. Net AV has grown by a total of 14.7% since 2015 to $2.2 billion in 2018. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for 11.1% of net AV.

Enrollment

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 that might be affected by circuit-breaker tax caps.

Enrollment came in at 8,666 students for the 2017-2018 school year, having grown 13% since 2013. Given the area's expanding population and the district's strong academic reputation, enrollment has increased steadily since the 2007-2008 academic year. Management is projecting enrollment to continue to grow at a similar pace or even faster through the 2021-2022 academic year. For the current school year, management reports an increase in enrollment of about 310 students.

Circuit breaker losses (10% of 2017 certified levies) are on the higher end of spectrum, somewhat limiting the revenues available to fund transportation, bus replacement, and capital programs, which are all funded with local property taxes.

Finances

The district's available cash reserve of $6.3 million (which consists of the combined general and rainy-day funds) is adequate on a cash basis of accounting, in our view, at 11.4% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, $3.3 million is in the general fund and $3.3 million is in the rainy-day fund according to the official Form 9 report. Officials stated that the actual rainy-day fund balance was $5.5 million in 2017 and the lower balance was showing in the official report due to an accounting error that was subsequently corrected in 2018. The district reported a surplus operating result of 1.2% of expenditures in 2017.

Officials expect to add to general and rainy-day fund reserves in calendar years 2018 and 2019. Projections show an ending general fund balance of $3.4 million and a rainy-day fund balance of $7.5 million in 2018, which in total would equate to almost $11 million, or 19% of expenditures, a level we consider strong. We understand that the district has been purposefully building up reserves over the past few years in preparation for the opening of a new elementary school in the 2018-2019 school year that will result in about $1 million of additional operating costs. Officials have found a way to reduce spending, particularly in the area of personnel costs, and now think that they will be able to absorb higher costs without affecting reserves. Enrollment increases and the advancements in foundation funding will also cover some of the costs. As a result, 2019 projections call for balanced operations.

Management

We consider the district's management practices standard under our Financial Management Assessment methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

Budget development involves at least five years of historical analysis. In addition to a state-mandated three-year capital improvement plan, the district maintains a 10-year facility plan that tracks enrollment and capital upgrades. Management provides monthly cash flow reports to the board that show actual revenue and expenses for each completed month and projections for the remaining months of the calendar year. Reports on investment holdings are typically provided once a year to the board. The district has adopted a five-year general fund forecast, which is discussed with the board and used for budget planning. The district has not adopted debt policy but has recently adopted an investment policy. Management targets to maintain 5%-10% of operating expenditures in the combined general and rainy-day fund reserves, and it is currently meeting this target.

Debt

The district's overall net debt is high, in our opinion, at $5,950 per capita and moderately high at 6.8% of market value. Amortization is fairly rapid, with 83% of the corporation's direct debt scheduled to be retired within 10 years (the amortization includes BAN that matures in 2019). The debt service carrying charge was 29.1% of total governmental fund expenditures excluding capital outlay in calendar 2017, which we also consider high. The debt burden will go up in 2018--the district plans to issue $47 million in 2018 to fund the remaining second phase of this project and another $12 million GO bond in 2019.

The district's series 2017 ad valorem property tax first mortgage bonds were privately placed, but in our view the bond documents include no permissive covenants.

Pension and other postemployment benefit liabilities

The school corporation contributes to two plans administrated by the state: the Indiana State Teachers' Retirement Fund 1996 account (TRF'96) and the Public Employee Retirement Fund (PERF). These are both cost-sharing, multiple-employer, defined benefit plans (the plans share all risks and costs, including benefit costs, proportionately by the participating employers). Certain employees are also covered under the TRF's pre-1996 account. Indiana has assumed the entire liability of this account, which it funds on a pay-as-you-go basis. The school corporation is not obligated to make payments to this account.

As required by state law, the school corporation paid 100% of its required pension contributions (which are actuarially determined) in 2017, equal to 4.1% of total district's expenditures.

As of June 30, 2017, the TRF'96 fund was 90.4% funded and PERF was 76.6% funded based on a 6.75% assumed rate of return, in accordance with Governmental Accounting Standards Board Nos. 67 and 68. We view the plans' actuarial assumptions, including this assumed rate of return, 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 district's required pension costs to increase significantly in the medium term.

Outlook

The stable outlook on the long-term rating reflects our assessment of the strength of Indiana's state aid intercept structure. The stable outlook on the underlying rating reflects our opinion that management will likely continue to skillfully handle its enrollment growth and capital needs while maintaining solid cash reserves. Despite a projected increase in expenditures due to the addition of a new school building, we expect enrollment increases and the advancements in foundation funding to provide additional revenues to cover these costs. We anticipate that management will also make adjustments to maintain at least good reserves, so we do not expect to change the rating over the next two years.

Upside scenario

We could raise the underlying rating if economic growth continues, reserves stabilize at a higher level, and the district's debt burden significantly moderates.

Downside scenario

We could lower the underlying rating if available reserves decline more than expected or fixed costs (debt service carrying charges and pension) begin to pressure the district's budget.

Related Research

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

Ratings Detail (As Of April 12, 2018)		
Brownsburg Comnty Sch Corp GO State Credit Enhancement		
Long Term Rating	AA+/Stable	Affirmed
Brownsburg 1999 Sch Bldg Corp, Indiana		
Brownsburg Comnty Sch Corp, Indiana		
Brownsburg 1999 Sch Bldg Corp SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Brownsburg 1999 Sch Bldg Corp (Brownsburg Comnty Sch Corp) BANs (Brownsburg Comnty Sch Corp) ser 2018 due 05/15/2019		
Short Term Rating	SP-1+	Affirmed

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.