

# RatingsDirect®

---

**Summary:**

**Warren County Metropolitan School  
District, Indiana  
Seeger School Building Corp; School  
State Program**

**Primary Credit Analyst:**

Anna Uboytseva, Chicago (1) 312-233-7067; [anna.uboytseva@spglobal.com](mailto:anna.uboytseva@spglobal.com)

**Secondary Contact:**

Erich L Schmitz, Chicago (1) 312-233-7076; [Erich.Schmitz@spglobal.com](mailto:Erich.Schmitz@spglobal.com)

## Table Of Contents

---

Rationale

Outlook

Related Research

## Summary:

# Warren County Metropolitan School District, Indiana Seeger School Building Corp; School State Program

### Credit Profile

US\$14.0 mil ad valorem prop first mtg bnds (Warren Cnty Metro Sch Dist) ser 2019 dtd 03/14/2019 due 01/15/2036

*Long Term Rating* AA+/Stable New

*Underlying Rating for Credit Program* A+/Stable New

#### **Seeger Sch Bldg Corp, Indiana**

Warren Cnty Metro Sch Dist, Indiana

Seeger Sch Bldg Corp (Warren Cnty Metro Sch Dist) ad valorem prop tax 1st mtg bnds (Warren Cnty Metro Sch Dist) ser 2018 due 01/15/2033

*Long Term Rating* AA+/Stable Affirmed

*Underlying Rating for Credit Program* A+/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'A+' underlying rating for credit program to Seeger School Building Corp., Ind.'s \$14 million ad valorem property tax first-mortgage bonds, series 2019, issued for Warren County Metropolitan School District (MSD). S&P Global Ratings also affirmed 'AA+' and 'A+' ratings on Warren County MSD's previously issued bonds. The outlook on all ratings is stable.

Management intends to use series 2019 bond proceeds to build a 1500-seat auditorium.

### Credit summary

The 'A+' rating, which we base on Warren County MSD's ad valorem tax pledge, reflects our view of the district's:

- Low unemployment, with good incomes and a market value per capita that we consider very strong;
- Positive enrollment trends, and an expectation of stable enrollment in the near term; and
- Sustained trend of strong financial performance and strong available cash reserves, which we expect will continue.

Warren County is one of the most rural counties in Indiana with agriculture being its leading economic driver. This reliance makes the area susceptible to fluctuations in agricultural markets, which we think limits the district's credit profile. On a positive note, Warren County MSD is well managed and continues to thrive. Management's progressive approach to education continues to attract new transfer students amid declines in the resident population. The district's stable financial position and strong reserves provide some cushion against unexpected enrollment or tax base fluctuations.

## **Security**

The series 2019 bonds are issued pursuant to a trust indenture between the building corporation and the trustee, and a lease between the building corporation, as lessor, and the district as lessee. Lease rentals paid by the district directly to the trustee secure the bonds. Rentals are payable from ad valorem taxes against all taxable property. The tax levy is not subject to annual appropriation under Indiana law, but there is abatement risk because Warren County MSD is required to abate lease rentals if the leased premises are not available for use. This risk is mitigated, in our view, by the lease requiring the district to maintain at least two years of lease interruption insurance as well as casualty insurance equal to full replacement cost. In addition, there is construction risk given that lease payments will be dependent on project completion. The bonds have been structured so that the first lease payments do not begin until seven months after estimated completion; interest payments are capitalized through to and including Jan. 15, 2021. Considering the nature of the project, we believe this provides a reasonable cushion against possible delays and mitigates the construction risk.

The ad valorem property tax pledge is subject to state circuit-breaker legislation, which caps the property tax burden for taxpayers based on a percentage 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 district to distribute circuit-breaker losses first across nondebt service funds that receive property taxes. We rate the debt at the same level as our view of the district's general creditworthiness.

The 'AA+' ratings are based on our state credit enhancement criteria, and reflect 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 districts can benefit from this statute without specific state qualification. However, in the absence of certain state aid coverage levels and bond terms, the statute might not provide sufficiently strong support in increasing the likelihood of payment in full and on time. For these reasons, we review state aid coverage and bond terms (see our report on Indiana School Corp., published May 16, 2017, on RatingsDirect).

## **Economy**

Warren County MSD, with an estimated population of 6,985, serves all of Warren County, except for portions of two townships. Headquarters are in Williamsport, about 30 miles west of West Lafayette. In our opinion, median household and per capita effective buying incomes are good at 100% and 103% of national levels, respectively. At \$95,004, the estimated market value per capita is, in our opinion, very strong. County unemployment averaged 3.3% in 2018, below state and national levels.

The district is very rural and farming is a significant part of the local economy. Although the tax base is stable, the state of Indiana's ongoing reassessment of agricultural land valuation is weakening net AV. Net AV declined 2.6% and 4.2% in 2018 and 2019, respectively, due to reassessments (after several years of growth before 2018), and will likely continue to fall as reassessments are phased in through 2021. On a positive note, 150 wind turbines are scheduled to be built in the district in the coming years as a part of the wind farm project. Management estimates each turbine to be assessed at \$2 million-\$3 million and have a 10-year abatement period, with annual 10% roll-offs. On completion, the wind turbines could add more than \$300 million in net AV to the current \$507 million, which would far offset declines from agricultural reassessment.

Officials report that the local agricultural economy will not be affected by recently enacted tariffs. The farmland in the county is among the top 10% of Indiana counties in terms of crop yield per acre, so it can easily be repurposed if certain export markets are not available.

## **Finances**

General fund operations of Indiana school districts 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 generators 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, which could be affected by circuit-breaker tax caps.

The district operates three elementary schools and one junior/senior high school. Growth of local businesses and innovative school curriculum offerings helped fuel an increase in transfer students. Despite the consistent declines in resident population, the district's enrollment has increased 20% since 2013 to 1,325 in 2018-2019 school year. Officials believe that the district's unique for the area advanced college placement classes, such as precision farming and fine arts, will continue to attract transfer students. In our view, the potential for enrollment declines is a risk, given the makeup of the tax base and declining resident population, but any losses would likely be minor and not cause significant budget pressure.

Warren County MSD maintains structurally balanced financial operations and strong available cash reserves, which we expect will continue. The district's available cash reserve of \$3.9 million (which consists of the combined general and rainy-day funds) is strong on a cash basis of accounting, in our view, at 48% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, \$2.5 million (31% of expenditures) is in the general fund, and \$1.4 million (17%) is in the rainy-day fund. The district's 2018 unaudited state report is still being developed. Management reports that the district ended 2018 (Dec.31) with a \$530,000 cash surplus in the general fund. As a result, the combined available fund balance improved to \$4.4 million, which equates to about 55% of the general fund expenditures.

Effective Jan. 1, 2019, Indiana school districts started budgeting and reporting their financial operations in a different way as per house bills 1009 and 1167. The education fund replaced the general fund, while a newly created operations fund consolidated most non-instructional services funds, such as transportation, school bus replacement, capital projects, art association, historical society, and public playground funds. In addition, the new law allowed transfers between the education and operations funds though with some limitations. The new reporting framework will likely have little effect on Warren County MSD's financial position. The district always had a practice of maintaining minimal cash balances in its nongeneral, tax-supported funds and this will not change when the funds are consolidated into the operations fund. Most available cash reserves will remain in the education and rainy-day funds. For 2019, management projects another cash surplus of approximately \$900,000 across education, operations, and rainy-day funds.

The state audits school districts biennially on a cash basis, using a June 30 fiscal year-end. In the interim, schools submit semi-annual financial statements to the state that are reviewed by the Indiana Office of School Finance (IOSF), and then made available as unaudited reports. We base our analysis on these unaudited, state-issued cash reports, but on a Dec. 31 year-end basis. In most cases, schools operate, budget, and report financial performance to their school boards using a calendar year. Therefore, we believe the calendar year-end reports offer a good understanding of each

district's financial performance and budget position. These unaudited reports prescribe to the state's uniform system of accounting and reporting that all schools are required to follow and, based on the IOSF review and on prior-year comparisons with audits, we consider them reliable to serve as a basis of our analysis.

## **Management**

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

We consider revenue and expenditure assumptions used for budgeting to be strong and generally conservative, with reliance on local and state government sources as well as internally driven estimates. Management reports to the school board monthly on year-to-date expenditures compared to annual appropriations, and also reports on monthly cash balances.

There is a formalized investment policy that mirrors state guidelines, and the full investment portfolio is reviewed annually. Officials do not have a formal long-term financial plan. Management and the school board articulated a new reserve target in 2018--they agreed that the reserves should remain in the 25%-30% range to retain the optimal cash flow levels. Lastly, management projects capital needs in annually updated, three-year rolling plans for each building, as required by the state. There is also a concise plan listing capital needs beyond the three-year horizon, though it lacks some details.

## **Debt**

The district's direct debt is at \$25.7 million. Overall net debt--which includes the debt of overlapping and underlying entities, is moderate, in our opinion, at 4% of market value and \$3,730 on a per capita basis. Debt amortization is slightly above average, with 59% principal amortization within 10 years. Debt service carrying charges are likely to remain moderate; they were at 11.6% of total governmental fund expenditures (excluding capital outlay) in 2017. The district privately placed its series 2013 GO bonds and series 2013 first-mortgage bonds. Although acceleration risk exists with the first-mortgage bonds (only \$434,000 principal outstanding), we do not consider events of default to be unusual and consider acceleration unlikely.

## **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 (they 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 district is not obligated to make payments to this account.

The school district continues to pay 100% of its required pension contributions (which are actuarially determined); the 2017 payment was equal to only \$518,000, or 3.5% of total funds' expenditures.

As of June 30, 2018, the TRF '96 fund was 98.5% funded and PERF was 79% funded in accordance with Governmental Accounting Standards Board Nos. 67 and 68. We view the plans' actuarial assumptions, including the 6.75% 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.

In addition to pension benefits, the school pays up to \$5,000 per year in health insurance premiums for retirees, until the age of 65. These costs totaled \$52,000 (0.3% of expenditures) in 2017. There is no actuarial study in relation to these benefits, but we do not view them as representing a substantial budgetary pressure.

## **Outlook**

The stable outlook on the 'AA+' ratings reflects S&P Global Ratings' assessment of the strength of the state aid intercept framework. The 'AA+' rating and outlook move in tandem with the state issuer credit rating and outlook.

The stable outlook on the 'A+' underlying rating is based on our expectation that the school district's operating budget will remain balanced, and that available reserves will remain strong. The district's stable local tax base, stable enrollment, and minimal tax cap pressures support our expectation that the operating budget is unlikely to come under significant pressure. Therefore, we do not expect to change the rating during our two-year outlook horizon.

### **Downside scenario**

If reserves are spent down substantially over the next two years to levels we no longer consider commensurate with 'A+' rated peers, whether due to budgetary stress or one-time spending, we would likely lower the rating.

### **Upside scenario**

A higher rating would likely be contingent on a more diverse employment base, more formalized financial management policies and reporting, and sustained reserves close to current levels.

## **Related Research**

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

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.