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Summary:

**Warsaw Multi-School Building Corp.,
Indiana**

**Warsaw Community Schools; School
State Program**

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Summary:

Warsaw Multi-School Building Corp., Indiana Warsaw Community Schools; School State Program

Credit Profile

US\$10.0 mil ad valorem prop tax 1st mtg bnds (Warsaw Comnty Schs) ser 2018 due 01/15/2037

<i>Long Term Rating</i>	AA+/Stable	New
<i>Underlying Rating for Credit Program</i>	A+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'A+' underlying rating to the series 2018 first-mortgage bonds issued by Warsaw Multi-School Building Corp., Ind.. At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on debt issued by and on behalf of Warsaw Community Schools. We also affirmed our 'A+' underlying rating on the building corporation's existing debt. The outlook on all ratings is stable.

The 'AA+' rating is based on the school district 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 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 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 2018 bonds are being issued to finance the construction of a new community center, site improvements to Warsaw High School, and capitalized interest. The 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 a lease between the school district and the school building corporation. Rent is payable from ad valorem taxes levied 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. We believe there is sufficient time between the estimated project completion date and the dates of the first lease payment and debt service payment. Furthermore, the school corporation will be making interim payments prior to the completion of the project. As a result, construction risk is mitigated, in our view.

The bonds are also subject to Indiana's circuit breaker, which requires 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 school district to distribute circuit-breaker losses first, across nondebt service funds that receive property taxes, which, in our view, mitigates any potential effect the circuit breaker could have on debt payments. Despite the limitations, we rate the limited-tax GO debt at the same level as our view of the district's general creditworthiness as is expressed in the rating on unlimited-tax GO bonds.

The 'A+' underlying rating reflects our view of the district's general creditworthiness, including its:

- Very strong per capita gross AV and proximity to the city of Warsaw, a regional commercial and industrial center as well as the Kosciusko County seat;
- Consistent maintenance of operating reserves that we consider strong on a cash basis of accounting between the general and rainy day funds;
- Moderate overall net debt burden on a per capita basis and as a share of gross AV.

Partially offsetting these strengths are the building corporation's income indicators, which, while good, are not consistent with higher rated peers.

Economy

Warsaw Community Schools serves an estimated population of 41,511 in Warsaw, roughly 40 miles northwest of Fort Wayne and 50 miles southeast of South Bend. In addition to being the county seat, Warsaw is a commercial and industrial center for the region and is home to several larger, long-standing medical device manufacturers. In our opinion, the median household effective buying income (EBI) in the corporation is 100% of the national average, and the per capita EBI in the district is 96% of the national average, both of which we consider good. At \$85,162 per capita, the 2018 gross AV totaling \$3.5 billion is, in our opinion, very strong.

The 10 largest taxpayers make up an estimated 19.0% of net AV, which we consider diverse.

Net AV grew by a total of 5.8% since 2016 to \$2.3 billion in 2018. The district's AV has increased in recent years and management expects to see stable-to-slight growth from now on. Due to ongoing development in the district, including residential, we view this expectation as likely.

Finances

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 97.9% of general fund revenue in 2016.

Enrollment for 2017 totaled 6,971 across the school corporation's 12 school building facilities. It has overall been relatively stable with slight fluctuations, which the corporation attributes to the net effect of gaining students from other districts due to the district's program offerings and families moving away. The corporation is a net enrollment gainer from other districts, gaining approximately 10 students annually. Based on projections, it expects growth in enrollment due to development in the district and transfers in from other districts, which we view as likely.

The corporation maintains its track record of achieving consistent positive financial performances. Calendar year-end 2017 (Dec. 31) reported a surplus operating result of \$53,000 or 0.1% of expenditures. Therefore, the corporation's available cash reserve of \$9.0 million (which consists of the combined general and rainy day) is strong on a cash basis of accounting, in our view, at 19.5% of general fund expenditures at calendar year-end (Dec. 31) 2017. Of that amount, \$5.8 million (12.5% of expenditures) is in the general fund and \$3.2 million (7.0%) is in the rainy day fund. The overall cash reserves went down slightly due to reduction in the rainy day fund which the school corporation opted to use to support its self-insurance fund..

The fiscal 2018 general fund budget totals \$51.5 million and the corporation is anticipating that the general fund could end with a break-even or another operating surplus. The corporation will begin labor contract negotiations in September. .

The state audits school corporations biennially on a cash basis, using a June 30 fiscal year-end. In the interim, schools submit semiannual 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 boards using a calendar year. Therefore, we believe the calendar year-end reports offer a good understanding of each corporation's financial performance and budget position. These unaudited reports follow 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, they have been deemed reliable to serve as a basis of our analysis.

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, including the use of at least three years of history and outside sources when forecasting trends. The board receives a monthly report detailing year-to-date budget to actual performance on expenditures in the general and all its other tax related funds. It also provides a monthly financial recap on its performance. The district does not maintain a debt management policy or a formal long-term financial plan past the budgeted year. It currently maintains the state-mandated three-year capital projects plan. The district adheres to state guidelines when making investment decisions and the board receives reports of investment holdings at least monthly. There is an informal target of maintaining at least \$5 million in the general fund and \$2.5 million in the rainy day fund, which the district is currently meeting.

Debt

Overall net debt is 3.6% of market value and \$3,055 per capita, which we believe to be moderate. With 61% of the corporation's direct debt scheduled to be retired within 10 years, amortization is fairly rapid. Debt service carrying charges were 13.2% of total governmental fund expenditures (excluding capital outlay) in calendar year 2016, which we consider moderate.

The corporation is planning to issue about \$5 million in general obligation (GO) bonds in June 2018 to finance various infrastructure updates.

The school corporation, on Oct. 19, 2017, entered into a drawdown agreement with 1st Source Bank in an amount not to exceed \$9.3 million with \$6 million drawn, to date. . The loan will bear an interest rate of 3.72% through Dec. 30, 2032. Thereafter, the interest rate will reset through maturity (Dec. 30, 2037). The loan agreement does not include any immediate payment of the entire debt should there be any occurrence of an event of default. Only, the current year's payment will be due and payable immediately. Therefore, we do not believe that this poses any liquidity risk to the corporation. In addition, the loan is expected to be paid from the capital projects fund.

Pension and other postemployment benefit liabilities

In fiscal 2016, it also paid \$3.9 million, or 4.6% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 6.9% of total governmental fund expenditures in 2016.

As of June 30, 2017, the Teachers Retirement Fund '96 was 90.4% funded and the Indiana Public Employees' Retirement Fund was 76.6% funded, based on an assumed rate of return of 6.75%, in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68. Considering the plans' strong funded ratios, reasonable actuarial assumptions (including an assumed rate of return of 6.75% that is slightly more conservative than the national average), and low historical contribution requirements for plan participants, we do not anticipate the school corporation's required pension costs will increase significantly over the medium term.

The corporation provides OPEBs on a pay-as-you-go-basis.

Outlook

The stable outlook on the 'AA+' long-term rating reflects our view of the strength of the Indiana state aid intercept program. The outlook on the 'A+' underlying rating reflects our expectation that the school corporation will take the necessary steps to maintain good reserves on a cash basis of accounting. Therefore, we do not anticipate changing the rating during the two-year outlook horizon.

Upside scenario

We could consider a higher underlying rating if economic indicators improve significantly while the district maintains strong levels of available cash reserves.

Downside scenario

If the district were to experience budgetary pressures resulting in structural imbalances that weaken its cash reserves to a level no longer commensurate with similarly rated peers, we could lower the underlying rating.

Related Research

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

Ratings Detail (As Of May 22, 2018)

Warsaw Multi-Sch Bldg Corp, Indiana

Warsaw Comnty Schs, Indiana

Ratings Detail (As Of May 22, 2018) (cont.)

Warsaw Multi-School Building Corporation (Warsaw Comnty Schs) GO State Credit Enhancement		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Warsaw Multi-School Building Corporation (Warsaw Comnty Schs) GO State Credit Enhancement (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Warsaw Multi-Sch Bldg Corp (Warsaw Comnty Schs) ad valorem prop tax first mtg rfdg and imp bnds (Warsaw Comnty Schs) ser 2016 due 01/15/2032		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Warsaw Multi-Sch Bldg Corp (Warsaw Comnty Schs) ad valorem prop tax 1st mtg bnds (Warsaw Comnty Schs) ser 2018 due 01/15/2037		
<i>Long Term Rating</i>	AA+/Stable	Rating Assigned
<i>Underlying Rating for Credit Program</i>	A+/Stable	Rating Assigned
Warsaw Multi-Sch Bldg Corp (Warsaw Comnty Schs) unlimited ad valorem prop tax 1st mtg bnds (Warsaw Comnty Schs) ser 2015 due 07/15/2035		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Warsaw Multi-Sch Bldg Corp (Warsaw Comnty Schs) unlted ad valorem prop tax first mtg bnds (Warsaw Comnty Schs)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Warsaw Multi-Sch Bldg Corp (Warsaw Comnty Schs) 1st mtg rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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