

RatingsDirect®

Summary:

**West Lafayette School Building Corp.,
Indiana**

**West Lafayette Community School
Corp.; School State Program**

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Credit Profile

US\$7.5 mil ad valorem prop tax first mtg bnds (West Lafayette Comnty Sch Corp.) ser 2020 due 01/15/2040

Long Term Rating AA+/Stable New

Underlying Rating for Credit Program AA-/Stable New

West Lafayette Comnty Sch Corp. GO State Credit Enhancement

Long Term Rating AA+/Stable Affirmed

West Lafayette Sch Bldg Corp, Indiana

West Lafayette Comnty Sch Corp., Indiana

West Lafayette Sch Bldg Corp ad valorem prop tax 1st mtg bnds (West Lafayette Comnty Sch Corp.)

Long Term Rating AA+/Stable Affirmed

Underlying Rating for Credit Program AA-/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' program rating and 'AA-' underlying rating (SPUR) for credit program and stable outlook to West Lafayette School Building Corp., Ind.'s roughly \$7.5 million series 2020 ad valorem property tax first-mortgage bonds, issued for West Lafayette Community School Corp., and affirmed its 'AA+' program rating and 'AA-' SPUR, with a stable outlook, on West Lafayette Community School Corp.'s existing debt.

Officials intend to use series 2020 bond proceeds to fund various capital needs at existing school facilities.

The program rating reflects our assessment of the Indiana State Aid Intercept program as it applies to West Lafayette School Building Corp. The state-credit-enhancement rating is one notch below our issuer credit rating on Indiana, reflecting our view of:

- State-aid-appropriation risks, partially mitigated by strong state program support and consistent, well-established state aid funding;
- Our expectation that state aid coverage of maximum annual debt service on all debt, currently 1.9x, will likely remain strong; and
- Our view that the flow of state aid distributions and debt-service-payment dates result in a moderate assessment of timing-and-administrative risks due to timing mechanisms that allow for notification to the state and intercept prior to debt-service payment.

Lease-rental payments from ad valorem property taxes, subject to state circuit-breaker tax caps but not subject to

annual appropriation, secure the series 2020 bonds. Insurance provisions mitigate abatement risk. Lease facilities will be in use during construction, allowing the corporation to make lease-rental payments throughout construction.

All existing debt is also subject to tax caps, which caps the property tax burden for taxpayers based on a percent of the real estate parcels' gross assessed value (AV). We rate all debt at the same level as our view of the school corporation's general creditworthiness, reflecting our view of the mitigation of lease risks, where applicable, and that there are no significant resource-fungibility limitations.

The ad valorem property tax levy is not subject to annual appropriation under Indiana law. There, however, is abatement risk because the district is required to abate lease rentals in the event the leased premises are not available. In our view, the lease that requires the district to maintain, at least, two years of lease-interruption insurance and casualty insurance equal to the full replacement cost somewhat mitigate this risk. In addition, the bonds are subject to construction risk.

Credit overview

The corporation's economy is limited and property tax base concentrated due to Purdue University, the leading regional employer, as well as Subaru-Isuzu Automotive Inc. and Wabash National Corp., two other leading employers. Enrollment has been stable recently, which has contributed to the maintenance of strong finances. The corporation has substantially increased cash-based reserves to more than 40% of annual operating expenditures, which we consider a significant credit strength because it provides the corporation with flexibility in the event of unexpected budget pressure. The corporation's high debt but no current needs for additional debt could be a credit weakness.

We do not expect COVID-19 will have an immediate effect on the corporation's budget. Although COVID-19 has forced the closure of all Indiana public school corporations, it has not had an effect on state aid. In our opinion, economic uncertainty associated with COVID-19 could be an additional longer-term pressure if state or local revenue were to decrease or pension costs were to increase due to investment losses; we will continue to monitor the situation.

The SPUR reflects our opinion of the corporation's:

- Stable economy, anchored by Purdue University;
- Very strong cash-based reserves; and
- Stable enrollment, directly tied to state funding.

We believe somewhat offsetting factors are, what we consider, the school corporation's:

- Moderately high debt with slower-than-average amortization, and
- Below-average income.

The stable outlook on the SPUR reflects S&P Global Ratings' opinion the corporation will likely maintain strong cash-based reserves, supported by relatively stable enrollment. Although the tax base is concentrated, we consider it stable. Therefore, we do not expect to change the rating within the two-year outlook.

The stable outlook on the program rating reflects S&P Global Ratings view of the state's creditworthiness and that the

state's program support will remain strong. We expect coverage will likely remain strong during the two-year outlook due to the program's structural features and recent state aid and enrollment. Upward rating potential is limited due to the 'AAA' rating on the state and appropriation risks. Should the state rating, its support, or debt service coverage decrease, we could lower the program rating.

Stable Outlook

Downside scenario

We could lower the rating if budgetary pressure were to occur that leads to consistent or significant cash-based reserve deterioration with no plans to rebuild reserves.

Upside scenario

With all other factors equal, we could raise the rating if economic indicators were to improve to levels we consider commensurate with higher-rated peers.

Credit Opinion

Economy

West Lafayette Community School Corp. serves a population estimate of 25,916. The school corporation includes Wabash Township and a portion of West Lafayette. West Lafayette is a regional economic center and the home of Purdue University, the leading regional employer with 16,773 employees. Subaru-Isuzu Automotive Inc., with 5,700 employees, and Wabash National Corp., with 3,200 employees, are two other leading employers. In our opinion, median household and per capita effective buying incomes are low at 61% but adequate at 80%, respectively, of national levels; Purdue University's large student population has an effect on these figures.

At \$66,409 per capita, fiscal 2020 gross AV, totaling \$1.7 billion, is, in our opinion, strong. Net AV has grown by 4.3% since fiscal 2018 to \$967.9 million in fiscal 2020. The tax base is concentrated with the 10 leading taxpayers accounting for about 40.2% of net AV. Purdue University provides stability to the local economy and the school corporation, evidenced by the corporation's positive enrollment, which helps support very strong finances.

S&P Global Economics thinks COVID-19 has caused the national economy to fall into a recession, signaling a strong likelihood of a near-term local economic slowdown. (For further information, please see the article, titled "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect.) While management reports COVID-19 has not had an immediate economic effect on the corporation, we will continue to monitor the health of the economy as the pandemic and recession progress.

Finances

Because the education fund relies entirely on state tuition support, determined on a per-pupil basis, operating revenue is very sensitive to enrollment fluctuations. The state audits school corporations biennially on a cash basis at fiscal year-end June 30; school corporations, however, operate, budget, and report financial performance to school boards for the calendar year and submit annual calendar year-end Dec. 31 cash-based financial statements to the state. In our view, the resulting state-issued, though unaudited, calendar year-end Dec. 31 cash statements offer a better

understanding of each corporation's financial performance; accordingly, we use these reports as the basis of our analysis.

Indiana school corporations general fund operations rely almost entirely on state tuition support, determined on a per-pupil basis. Therefore, operating revenue is very sensitive to enrollment fluctuations. Student enrollment for school year 2019-2020 totals 2,360. Enrollment increased overall from 2016-2020; management expects this trend to continue, which we view as a positive credit factor. State aid accounted for 70.1% of general fund revenue in 2018.

As of Jan. 1, 2019, statewide accounting changes replaced the general fund with the education fund, funded solely through per-pupil state aid. A small portion of the general fund and several tax-backed operating funds consolidated into the operations fund, solely funded by property taxes and, in most cases, transfers from the education fund, which circuit-breaker caps could largely affect. There are few limitations on transfers between the education and operations funds. Since fiscal 2019, we view the education and operations funds as the main operating funds of school corporations.

The district's circuit-breaker losses (7.5% of 2018 certified levies) are moderate; it does not limit revenue available to fund transportation, bus replacement, and capital programs, which are all funded with local property taxes. Officials state circuit-breaker losses will most likely be between 8% and 9% for 2019, which we would still consider moderate. The district could raise taxes, if needed.

The school corporation reported a slight deficit in the combined general and referendum fund in calendar 2018 due to some unexpected transportation and special-education costs. It expects, at least, balanced operating results for calendar 2019, which we think is a reasonable assumption due to increasing enrollment. As a practice, the corporation historically kept cash-based reserves in its referendum fund to provide a cushion if the referendum levy is not renewed. Since the corporation renewed the levy in 2017, we think it could draw on reserves during the next several years; we, however, expect total reserves to remain very robust. The corporation targets maintaining a minimum of one year of referendum-fund expenditures in reserve, which it currently exceeds.

As part of our analysis, we combine the general, referendum, and rainy day funds because they represent the core operating funds. Available cash-based reserves of \$9.75 million (the combined general, referendum, and rainy day funds) were very strong, in our view, at 48% of operating fund expenditures for calendar year-end 2018. Total cash balance of \$9.7 million includes \$8.4 million in the combined general and referendum fund and \$1.3 million in the rainy day fund. Management also expects revenue increases in a few years once tax-incentive-financing projects are complete.

The state audits school corporations biennially on a cash basis at fiscal year-end June 30. In the interim, schools submit semiannual financial statements to the state that Indiana Office of School Finance (IOSF) reviews and then makes available as unaudited reports. We base our analysis on these unaudited, state-issued cash reports, albeit on a calendar year-end Dec. 31 basis. In most cases, schools operate, budget, and report financial performance to their boards using a calendar year. Therefore, we think calendar year-end reports offer a good understanding of each corporation's financial performance and budget. Unaudited reports prescribe to the state's uniform system of accounting and reporting all schools must follow. Based on the IOSF review and prior-year comparisons with audits,

we deem these unaudited reports reliable to serve as a basis of our analysis.

We base our analysis on the school corporation's calendar year-end Dec. 31, unaudited, cash-based reports submitted to, and reviewed by, IOSF.

Management

We consider the corporation's financial 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 the use of historical trends and third-party resources for budgeting and quarterly reports to the school board on year-to-date budget performance. The corporation maintains long-term projections for its operating funds, which it updates annually and shares with the board. The school plans for capital expenditures using a three-year rolling capital plan and a long-term technology plan. The district's formally adopted investment-management plan mirrors state guidelines, and officials provide annual holdings-and-earnings reports to the board. The district adheres to state debt policies. Although no formal fund-balance policy exists, the corporation strives to maintain a general fund balance equal to 10% of operating expenditures and the referendum-fund balance at one year of referendum-fund expenditures. In addition, it seeks to hold, at least, \$1 million in its rainy day fund.

Debt

Overall net debt is high, in our opinion, at 10.4% of market value, or \$5,463 per capita. With officials planning to retire 35% of the corporation's direct debt within 10 years, amortization is slower than average. Debt service carrying charges were 19.1% of total governmental-fund expenditures, excluding capital outlay, in calendar 2018, which we consider elevated. Management does not currently have any additional debt plans.

Pension and other-postemployment-benefit liabilities

We do not view pension liabilities as an immediate credit pressure for the school corporation due to our opinion of its strong plan funding and affordable contributions; we, however, see small cost-escalation risk.

At June 30, 2018, the corporation participated in:

- Indiana Public Employees' Retirement Fund (PERF), which is 78.9% funded; and
- Indiana Teachers' Retirement Fund (TRF), which is 98% funded.

PERF and TRF contributions exceeded our static- and minimum-funding-progress metrics, resulting in funding progress for PERF and TRF. There is an actuarial plan in place for both plans to reach full funding, and management expects consistent contributions due to level-dollar amortization. Corporation schedules have PERF and TRF fully funded within 24 years, which is riskier than our 20-year guideline to pay down unfunded liabilities effectively. With a 6.75% discount, we see some cost-escalation risk due to market volatility.

The school corporation allows employees to remain on its health-care plan upon retirement, but retirees pay the full amount of their premiums. Therefore, there is only an implicit liability to the school corporation. Furthermore, teachers who are at least 55 years old when they retire with 15 years of service are eligible to receive a payout of any unused sick leave, maxing out at 260 days for those hired before Sept. 20, 2012, and 100 days for teachers hired after this date. The corporation paid the full required contribution of \$1 million toward its pension obligations in calendar 2018, or

3.1% of total governmental expenditures.

Related Research

Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

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