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Summary:

**North Newton School Building Corp.,
Indiana**

**North Newton School Corp.; School
State Program**

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Credit Profile

US\$12.155 mil ad valorem prop tax 1st mtg rfdg and imp bnds (North Newton Sch Corp) ser 2018 due 01/15/2029

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

North Newton Sch Bldg Corp, Indiana

North Newton Sch Corp, Indiana

North Newton Sch Bldg Corp (North Newton Sch Corp) 1st mtg

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

Rationale

S&P Global Ratings assigned its 'AA+' program rating and 'A+' underlying rating to North Newton School Building Corp., Ind.'s series 2018 ad valorem property tax first mortgage refunding and improvement bonds, issued for North Newton School Corp. At the same time, we affirmed our 'AA+' program rating and 'A+' underlying rating on the corporation's existing debt. The outlook is stable.

The 'AA+' program rating reflects our view of the school corporation's meeting our Indiana State Aid Intercept program rating criteria and 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 at least 2x maximum annual debt service (MADS) coverage using state aid appropriated and allocated for distribution to the district during the state's fiscal year. In addition, appropriated yet undisbursed state aid provides at least 1x MADS coverage. If the district meets these coverage thresholds and debt obligations contain certain bond provisions, we will likely rate obligations that benefit from this statutory enhancement under the intercept-and-withholding program section of our state credit enhancement criteria. The rating is one notch off the state issuer credit rating because we consider it equivalent to the appropriation rating and state outlook.

The series 2018 bonds are secured by lease rental payments, payable from ad valorem property taxes levied against all taxable property in the district. Lease payments are mandatory and not subject to appropriation, but are subject to abatement if the leased property is damaged or destroyed. However, lease provisions that require the corporation 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 somewhat mitigate abatement risk.

Proceeds from the 2018 ad valorem property tax first-mortgage bonds will be used to refund the corporation's series 2009 first mortgage bonds and to finance renovations and improvements at various buildings. Interest cost savings generated from the refunding are intended to cover the lease rentals on the new money portion of the bonds. We

understand that the buildings will be occupied during construction, which allows the corporation to make lease payments during construction. Thus, construction risk is mitigated, in our view.

Ad valorem property taxes securing the corporation's debt are subject to state circuit-breaker limitations that require taxpayers to pay only up to a statutorily defined share of the property's gross assessed value (AV) and that could result in a reduction to the corporation's aggregate-tax levy. The levy to cover debt service, however, is statutorily protected; this requires the corporation to distribute circuit-breaker losses first across non-debt-service funds that receive property taxes, mitigating the potential effect the circuit breaker could have on debt payments. We believe the corporation possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax general obligation (GO) bonds.

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

- Access to the larger and more diverse economies of northwest Indiana and Lafayette,
- Strong available reserves on a cash basis of accounting as a percentage of expenditures,
- Very strong market value per capita, and
- Moderate overall net debt with above-average amortization.

Partly offsetting the above strengths, in our view, are the corporation's declining enrollment and lack of formal management policies in accordance with our Financial Management Assessment (FMA) methodology.

Economy

North Newton School Corp. covers 260 square miles and serves an estimated population of 9,338. The corporation spans several townships, including Morocco and Mount Ayr in Newton County. The rural district, in northwestern Indiana, has access to Interstate 65, which allows residents to travel north for employment to communities closer to Chicago, such as Hammond and Gary, or south to Lafayette and West Lafayette, the latter of which is home to Purdue University. Despite this access, county unemployment of 5.6% in 2016 remained higher than state and national rates. Median household and per capita effective buying income in the district are, in our view, good at 102% and 94%, respectively, of national levels. Gross AV totaled \$775.1 million, which we consider very strong at \$83,006 per capita, in calendar 2017. Net AV decreased 2.1% in 2018 to \$543.1 million. We understand that the decrease in AV was the result of a phased-in statewide agricultural land reassessment; we anticipate this trend could continue. The tax base is diverse with the 10 leading taxpayers accounting for approximately 19.6% of net AV.

Finances

General fund operations of Indiana school corporations 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 the 2017-2018 school year totals 1,376, a 2.4% decrease since the 2012-2013 school year. In fall 2016, the corporation gained nine more students than it lost to open-enrollment programs. Officials expect enrollment to remain fairly stable over the next few years. State aid accounted for 97.4% of general fund revenue in calendar 2016.

Available cash reserves of \$2.5 million (which consists of the combined general and "rainy day" funds) were strong on a cash basis of accounting, in our view, at 29% of general fund expenditures at calendar year-end 2016. Of that amount, \$1.4 million, or 16% of expenditures, was in the general fund and \$1.1 million, or 12.9%, was in the rainy day fund. The corporation reported a surplus operating result of \$390,000, or 4.6% of expenditures, in calendar 2016.

Officials attribute the surplus to an increase in student enrollment, which resulted in increased state tuition support.

Budgeted expenditures for school year 2017 totaled \$9.2 million using \$6,176 of fund balance appropriation to balance the budget. Officials report that they ended up adding to reserves by year end, increasing the available general fund balance to an estimated \$1.5 million. The corporation also estimates that the rainy day fund increased to \$1.4 million at calendar year-end 2017. Officials report that the corporation could spend a small portion of its general fund balance in calendar 2018 given a projected drop in enrollment and an increase in wages and benefits, though they aim to break even. In the event of a drawdown, we anticipate that reserves would remain strong. Officials report no plans to spend down the rainy day fund balance.

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 school 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 adhere 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 have deemed them reliable to serve as a basis of our analysis.

Management

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

The corporation looks at historical trends back to 1993 when budgeting, and its financial plan looks out until calendar 2019. The board receives a monthly report on year-to-date performance, but this does not show a comparison to the budget. The corporation reports it has recently implemented a 10-year capital improvement plan. Management reports investments annually and complies with state guidelines. The corporation informally aims to maintain reserves of at least 10% of expenditures, which it has been above historically. The corporation adheres to state guidelines for debt management.

Debt

At 3.9% of market value and \$3,246 per capita, we view overall net debt as moderate. With 82% of the corporation's direct debt scheduled to be retired within 10 years, amortization is rapid. The debt service carrying charges was 16.4% of total governmental fund expenditures, excluding capital outlay, which we consider elevated, in calendar 2016.

All debt is fixed rate to maturity, and the corporation has no direct purchase debt outstanding. Officials report that they may issue approximately \$1.1 million of GO debt later this year for various capital projects.

Pension and other postemployment benefit liabilities

The school corporation contributes to the Indiana Public Employees' Retirement Fund (PERF) on behalf of noncertified staff and the 1996 Indiana Teachers' Retirement Fund (TRF) on behalf of certified staff; the plans are multi-employer, cost-sharing defined benefit plans. PERF is 79% funded and TRF is 92% funded. The corporation continues to meet 100% of its annual required contribution (ARC). In calendar 2016, the corporation paid its full ARC

of \$464,000, or 2.7% of total governmental expenditures, to its pension obligations.

Outlook

The stable outlook on the program rating reflects S&P Global Ratings' assessment of the strength of Indiana's state aid intercept structure and S&P Global Ratings' expectation that the district will likely maintain its eligibility to participate in the program. The stable outlook on the underlying rating reflects our opinion of the corporation's access to the larger and more diverse economies of northwest Indiana and Lafayette. We believe the corporation's very strong available fund balance as a percentage of expenditures provides further rating stability. Therefore, we do not expect to change the rating over the two-year outlook period.

Downside scenario

If budgetary performance were to weaken, causing available reserves to fall below levels we consider at least strong, we could lower the rating.

Upside scenario

Barring no deterioration in other credit factors, we could raise the rating if income were to improve to levels we consider commensurate with those of higher-rated peers, coupled with an increase in enrollment, and if management were to sustain available reserves at what we consider very strong levels.

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