Summary:

Illinois Finance Authority
Lake County Community Unit School District No. 95 (Lake Zurich); General Obligation

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Table Of Contents

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Credit Profile		
US$35.18 mil local government prog rev bnds (Lake Zurich Comnty Unit Sch Dist Number 95 Proj) ser 2019 due 01/15/2039		
Long Term Rating	AAA/Stable	New
Lake Cnty Comnty Unit Sch Dist #95 Lake Zurich GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the Illinois Finance Authority's (IFA) series 2019 general obligation (GO) bonds issued for Lake County Community Unit School District No. 95 (Lake Zurich), Ill. At the same time, S&P Global rating affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the district's GO bonds outstanding. The outlook is stable.

The district's GO bonds are eligible to be rated above the sovereign because we believe Lake Zurich school district can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), we view U.S. local governments as having moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of federal government intervention. The district demonstrates financial flexibility, with its very strong fund balances, very strong liquidity, and locally sourced operating revenues.

Securing the GO bonds is revenue from the district's GO unlimited ad valorem tax; the bonds were passed by 68% of voters in March 2018 as part of a $77.6 million referendum. Although the bonds are issued through the IFA as local government program revenue bonds, neither the bond proceeds nor the debt service flow through the authority. The district is issuing the bonds through the IFA to gain state tax-exemption status for the bonds, in addition to federal tax exemption.

Bond proceeds will fund capital improvements to facilities and the construction of a new elementary school, library and cafeteria.

The district's strength lies in its wealthy tax base, as well as, its conservative management, as evidenced by many years of sizable surpluses and a very healthy fund balance. The district is taking on more debt and its overlapping debt has increased, but we believe this is manageable and will not negatively affect its strong financial position.

The 'AAA' rating reflects our view of the district's:

- Participation in the diverse Chicago metropolitan area economy;
- Very strong income levels and extremely strong market value per capita;
- Very strong combined educational and operations and maintenance (O&M) fund balance.

Economy

The district serves an estimated population of 31,312. The median household effective buying income in the district is 193% of the national average, and the per capita effective buying income is 174%, both of which we consider very strong. The district's total $5 billion estimated market value in 2019 is extremely strong, in our view, at $158,888 per capita. Equalized assessed valuation grew 4.9% since 2017 to $1.7 billion in 2019. The 10 largest taxpayers make up an estimated 5.6% of equalized assessed valuation, which we consider very diverse.

The district serves the area of Lake Zurich and portions of the villages of Kildeer, Deer Park, North Barrington, and Hawthorn Woods in Lake County. It is about 35 miles north of downtown Chicago, with highway and commuter rail access to employment opportunities throughout Chicago metropolitan area. Management reports several housing developments underway and continuing retail and industrial growth. We expect that the district's economic indicators will remain very strong.

In 2019, enrollment came in at 5,590 students, having decreased slightly overall from 2015-2019. Management projects slight increases in the next five years.

Finances

The district's available fund balance of $51.7 million (which consists of the combined educational and operations-and-maintenance funds, referred to as the general fund, as well as additional liquidity in the working cash fund) is very strong in our view, at 46% of general fund expenditures at fiscal year-end 2018 (June 30). Of that amount, $48.7 million (44% of expenditures) is in the general fund, and $3.0 million (2.7% of expenditures) is in the working cash fund. The district reported a surplus operating result of 3.6% of expenditures in 2018. It depends primarily on property taxes for general fund revenue (61.8%), followed by state aid (4.3%).

The district has a long history of experiencing general fund surpluses attributable to strong revenue growth and conservative budgeting practices. The district budgeted a $7.7 million general fund deficit for fiscal 2019, but that includes expenditures that bond proceeds will repay, thus the district is expecting a general fund surplus. Because it is over its fund balance policy, it will strategically begin to spend down $18 million of general fund reserves on capital improvement. We do not believe that this drawdown will negatively affect the rating and expect management keep reserves within its fund balance policy of 50% of expenditures (excluding on-behalf expenditures from the state).

Management

We consider the district's financial management practices good under our financial management assessment (FMA) methodology. An FMA of good indicates our view that practices exist in most areas, although governance officials might not formalize or monitor all of them regularly.

The district uses historical and external data to project revenue and expenditure assumptions for each budget. Its board receives monthly reports that include revenues and expenditures budget-to-actual comparisons. It performs long-term financial and capital planning, although the capital plan is not updated annually. The district has an investment policy and reports the holdings to the board monthly. It also has a debt management policy although it is limited in scope. The district's formal reserve policy calls for 50% (fund balance to expenditures) and not more than 75% in each operating fund.

Debt

At 2.2% of market value, we consider overall net debt low, but at $3,477 on a per capita basis, we view it as moderate. With 45% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 7.0% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider low.

The overall net debt burden has increase due to the district's increased direct debt and the inclusion of the alternate revenue source overlapping debt. Direct debt outstanding is $44 million. The district plans to issue $42 million of debt within the next two years. It has a $2.3 million direct placement debt with JP Morgan, but we do not view the loan agreement as permissive and do not consider it a liquidity risk.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $1.0 million toward its pension obligations in fiscal 2018, or 0.8% of total governmental expenditures. That year, management also paid $345,000, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 1.0% of total governmental fund expenditures in 2018.

The district participates in the Illinois Municipal Retirement Fund (IMRF) plan, Teachers' Retirement System (TRS) plan, and Teacher's Health Insurance Security (THIS) plan. The TRS is poorly funded, at 40%, but this paid by the state and is not a district liability. The IMRF is well funded at 87%, is funded from district funds, and is a district liability. The district does not subsidize any retirees' health care premium.

Outlook

The stable outlook reflects our anticipation that the district will maintain very strong fund balances in its combined educational and O&M fund. Also, the district's participation in the Chicago metropolitan area economy supports the outlook. We do not expect to raise or lower the rating within the two-year outlook period because we anticipate that management will adjust the budget as necessary to uphold very strong fund balances, given the district's good financial practices.

We could lower the rating if fund balances were to fall significantly below the fund balance policy of 50% of expenditures (excluding on-behalf payments from the state) due to operational spending imbalance, and management didn't have a plan to restore it.

action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.