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INVESTORS SERVICE

Rating Update: Moody's affirms Aa3 on Waukegan Park District, IL's GO debt

Global Credit Research - 29 May 2015

Affects $8.5 million of rated debt

WAUKEGAN PARK DISTRICT, IL
Park/Recreation Districts
IL

NEW YORK, May 29, 2015 --Moody's Investors Service has affirmed Waukegan Park District's (IL) general obligation rating of Aa3. The Aa3 rating applies to $8.5 million of outstanding general obligation unlimited tax (GOULT) debt.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the park district's ample reserves and stable financial operations, along with strong financial and capital planning practices. Additionally, the rating incorporates the district's rapidly declining tax base, reduced revenue raising flexibility due to property tax rate limitations, and a below average socioeconomic profile.

OUTLOOK

Outlooks are generally not applicable for local government credits of this size.

WHAT COULD MAKE THE RATING GO UP

-A multi-year trend of growth in the tax base

-Improved socioeconomic profile

WHAT COULD MAKE THE RATING GO DOWN

-Further tax base erosion, putting downward pressure on property tax revenues

-Declines in reserves

STRENGTHS

-Favorable location with access to employment centers in both Chicago (Ba1 negative) and Milwaukee (Aa3 stable) metropolitan areas

-Ample reserves with stable financial operations

-Strong management team with long-term fiscal and capital planning practices

CHALLENGES

-Tax base has declined in value by 41% since 2008

-Two primary operating property tax levies are at their rate caps

-Below average socioeconomic profile characterized by high unemployment

RECENT DEVELOPMENTS

Recent developments incorporated into the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SIGNIFICANT TAX BASE DECLINES; WEAK SOCIOECONOMIC PROFILE

The park district's $2.9 billion tax base is expected to stabilize following a multi-year trend of significant declines. Located approximately 35 miles north of Chicago in Lake County (Aaa), the district is essentially coterminous with the City of Waukegan (A2). The district's tax base has experienced significant declines in recent years with full valuation declining 41% from its peak in 2008. Officials attribute the sizeable declines to housing depreciation, foreclosures, and tax appeals. Moving forward, officials expect trends to stabilize, citing preliminary data from the county which indicate a more moderate 4.0% decline will be recorded in the current year and a 4-6% increase in 2016. The tax base is predominantly residential (60% of assessed valuation) with a significant commercial (25%) and industrial (14%) presence. The City of Waukegan's socioeconomic profile is weak relative to similarly rated entities. According to recent estimates by the 2006-2010 American Community Survey, Waukegan's median family income and per capita income was 85.0% and 73.5% of the national average. At 8.7% as of March 2015, the city's unemployment rate was significantly higher than the state (6.3%) and national (5.6%) rates for the same period.

FINANCIAL OPERATIONS AND RESERVES: HEALTHY RESERVES OFFSET RISKS PRESENTED BY VALUATION DECLINES AND PROPERTY TAX RATE CAPS

Despite reliance on property tax revenues and currently levying the maximum rates for key operating funds, we expect the district's financial profile to remain healthy given ample reserves, stable operations, and significant expenditure flexibility. As the district's tax base has declined rapidly in recent years, tax rates have risen to maintain levy levels. A majority of the district's individual funds have rate limits imposed through Illinois' Property Tax Extension Limitation Law (PTELL). As of 2014, the district has reached the rate limit for its two primary operating funds (General and Recreation). A declining tax base, coupled with an inability to increase tax rates, will likely limit the district's revenue raising flexibility in the near term. Similarly, with the city's below average wealth levels, management has limited flexibility in raising fees for programs and services.

Offsetting the limited revenue raising flexibility is the district's stable financial operations and ample reserves. The Operating Fund (comprised of the General, Recreation, Illinois Municipal Retirement, Working Cash, and Debt Service Funds), ended fiscal 2014 with an operating surplus of about $994,000 and an available fund balance of $11.9 million, or a healthy 98.4% of revenues. While audited information is not yet available for fiscal 2015, officials expect to end the year with a modest operating surplus. Officials are also budgeting for balanced operations in fiscal 2016.

Property taxes are the district's primary source of revenue, accounting for 76% of total Operating Fund revenues in fiscal 2014. The district reached its maximum allowable rate for the General and Recreation levy in 2009 and 2013, respectively. While this will limit the district's ability to raise revenues in the near term, the district benefits from a significant amount of expenditure flexibility. Approximately 15.0% of total Operating Fund expenditures are comprised of annual transfers out of the General Fund to the Capital Projects Fund. Officials report these capital transfers are part of a longer-term plan to cash finance the construction of an outdoor swimming pool. Such discretionary transfers provide ample expenditure flexibility if revenues were to decline as a result of the district's restricted revenue raising ability.

Liquidity

The district's fiscal 2014 Operating Fund net cash balance was $7.8 million or a healthy 64.2% of revenues. Outside of the Operating Fund, the district ended fiscal 2014 with a cash balance of $11.2 million in its Capital Projects Fund. Officials report that up to $9.4 million of the cash reserves held in the Capital Projects Fund is expected to be spent down within the year to construct a new outdoor swimming pool. This amount may decrease if the district is able to obtain a discretionary capital grant from the State of Illinois (A3 negative).

DEBT AND PENSIONS: MODEST DEBT BURDEN; NO FUTURE BORROWING PLANS

We expect the district's debt position to remain stable due to a lack of future borrowing plans. At fiscal year-end 2014, the district's direct debt burden was $19.4 million, or a modest 0.7% of full value. Outstanding debt is inclusive of $17.7 million of GO alternate revenue debt and $1.7 million of general obligation limited tax (GOLT) debt secured by the district's debt service extension base (DSEB). The district annually issues short term GOLT bonds that fully leverage its DSEB to pay debt service on the district's GO alternate revenue bonds. The DSEB was approximately $1.7 million in 2014.

Debt Structure

All of the district's direct debt is fixed rate and amortizes over the long term. Principal amortization is below average, with 59.4% of principal repaid within ten years.

Debt-Related Derivatives

The district has no derivatives.

Pensions and OPEB

The district's pension liabilities are manageable, based on unfunded liabilities for its participation in the Illinois Municipal Retirement Fund (IMRF), a multi-employer agent plan. For fiscal 2014, the district contributed $385,000, which was equal to the actuarially determined annual contribution requirement (ARC). Moody's fiscal 2014 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $5.2 million, equal to 0.4 times operating revenues and 0.2% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

MANAGEMENT AND GOVERNANCE: STRONG MANAGEMENT WITH LONG-TERM FISCAL PLANNING

Illinois special districts have an institutional framework score of "Aa", or strong. These districts generally benefit from sufficient revenue raising authority and flexible expenditure requirements to mitigate enterprise risk. While Waukegan Park District's revenue raising flexibility is restricted due to property tax rate caps, the district maintains a significant amount of expenditure flexibility. The district also benefits from strength in management which has historically utilized conservative budgeting practices and long-term fiscal planning.

KEY STATISTICS

-Tax Base: Full Value: $2.9 billion

-Full Value Per Capita: $32,600

-Median Family Income: 85.0% of U.S. Median

-Fund Balance as % of Revenues: 98.4%

-5-Year Dollar Change in Fund Balance as % of Revenues: 36.4%

-Cash Balance as % of Revenues: 64.2%

-5-Year Dollar Change in cash Balance as % of Revenues: 23.5%

-Institutional Framework: 'Aa'

-5-Year Average of Operating Revenues / Operating Expenditures: 1.06x

-Net Direct Debt / Full Value: 0.7%

-Net Direct Debt / Operating Revenues: 1.6x

-3-Year Average Moody's ANPL / Full Value: 0.2%

-3-Year Average Moody's ANPL / Operating Revenues: 0.5x

OBLIGOR PROFILE

Waukegan Park District covers 21 square miles, is essentially coterminous with the City of Waukegan, and is located along the western shore of Lake Michigan. The district owns and operates 47 park sites, a recreation center, a cultural arts center, an outdoor swimming pool, a museum, and numerous athletic fields.

LEGAL SECURITY

The GO alternate revenue bonds are ultimately secured by the district's general obligation unlimited tax pledge. However, the general levy on the bonds are expected to be abated annually, through a covered abatement, and offset by revenues generated from the district's DSEB as well as all other additional available pledged revenues.

USE OF PROCEEDS

Not applicable.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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