

RatingsDirect®

Summary:

Waukegan Park District, Illinois; General Obligation

Primary Credit Analyst:

Andrew J Truckenmiller, Chicago (1) 312-233-7032; andrew.truckenmiller@standardandpoors.com

Secondary Contact:

John Sauter, Chicago (1) 312-233-7027; john.sauter@standardandpoors.com

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Credit Profile

US\$9.175 mil GO rfdg pk bnds (alt rev source) ser 2015A due 12/15/2028

Long Term Rating AA/Stable New

Waukegan Pk Dist GO rfdg pk bnds

Long Term Rating AA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Waukegan Park District, Ill.'s series 2015A general obligation (GO) alternate revenue source (ARS) refunding park bonds. At the same time, we affirmed our 'AA' long-term rating on the district's existing GO bonds. The outlook on all ratings is stable.

The rating reflects our view of the district's:

- Participation in the deep and diverse Chicago metropolitan area economy,
- Adequate incomes,
- Good financial management practices that have resulted in historically very strong reserves, and
- Moderate debt burden.

A pledge of corporate revenues secures the bonds, as well as the district's GO pledge, backed by an unlimited ad valorem property tax. To the extent that revenues are expected to be on hand in an amount to pay the upcoming year's debt service, the district will abate the debt service levy for the series 2015A bonds. In practice, the district intends to pay a majority of debt service on the series 2015A bonds with proceeds from the annual issuance of short-term GO bonds. The district will then levy against its debt service extension base, which is an ad valorem property tax levy limited as to amount but unlimited as to rate, to repay the short-term GO bonds. The district has other existing GO ARS bonds, some with and some without covered abatement requirements, so the debt service levy on certain obligations can be abated based on expected cash availability, mostly from annual short-term GO bond sales. The district has historically maintained adequate cash balances on debt service due dates (which are greater than 2x maximum debt service) however, abating the potential delay of short-term GO bond sales.

The district plans to use bond proceeds to advance refund existing series 2008B GO ARS bonds for interest-cost savings.

The 21-square-mile park district serves an estimated 90,100 residents and is nearly coterminous with the city of Waukegan in Lake County. Waukegan is approximately 40 miles north of downtown Chicago and 10 miles south of the Wisconsin-Illinois border, affording residents access to a wide variety of jobs both locally and in the surrounding Chicago metropolitan area. The city's median household effective buying income (EBI) is adequate at 80% of national

levels, and per capita EBI is adequate at 66% of the national level. The district's tax base has been decreasing in recent years--with declines of 14.5%, 11.4%, and 4.5% in fiscal years 2013, 2014, and 2015, respectively--to a market value of \$2.8 billion in fiscal 2015, equal to a low \$30,756 per capita. Officials attribute the tax base declines to falling home values and lags in assessments, and expect that values will level off. The tax base remains very diverse, in our view, with the 10 leading taxpayers accounting for 10% of equalized assessed value.

The district's financial operations remain strong. As of fiscal year-end 2013 (April 30), the general fund carried a \$2.5 million unassigned fund balance and the recreation fund was \$2.5 million. The two funds' combined available reserves totaled \$4.9 million, or a very strong 67% of combined funds' expenditures and transfers-out for debt service to the capital projects fund. Fiscal 2014 results saw a \$295,000 operational surplus after transfers. In fiscal 2014, the district had a large \$3.5 million transfer to the debt service fund (\$1.5 million) and capital project fund (\$2.0 million), which reflects its effort to increase fund balance levels of the other major funds such as the capital projects fund. The district indicates it will continue transfers to other funds, but will at least maintain reserves at 25% of expenditures.

The district estimated fiscal year-end 2015 results of a \$464,000 drawdown in the operating fund as a result of transfers to the debt service and capital projects funds. The district has budgeted for another planned drawdown in fiscal 2016 of \$415,000. Management indicates the district will be funding a \$9.5 million pool house with operating funds as a result of the historical transfers from the operating funds into the capital fund.

The district is subject to a levy cap equal to the lesser of 5% or the rate of inflation, except with regard to new construction. As a result, the district is able to increase its tax rate to offset the decreasing tax base values. Property taxes account for 71% of combined general and recreation fund revenues, followed by various program fees and sports facilities operating revenues (golf course, field house, and SportsPark) at 15%.

We consider Waukegan Park District's financial management practices "good" under Standard & Poor's Financial Management Assessment, indicating that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. The district considers historical trends and seeks input from numerous local officials when budgeting annual revenues and expenditures. Management reviews budget-to-actual performance reports for all funds on a line-item basis monthly, and formally reports results to the board halfway through its budget year. In addition, management maintains a rolling three-year board-approved comprehensive capital improvement plan. Management also utilizes a five-year capital plan that identifies larger projects. The district adheres to formal, board-approved investment and fund balance reserve policies. The district's formal reserve policy calls for a minimum of 25% of expenditures in all funds.

In our view, the district's estimated overall debt burden is moderate at 6% of market value and low at \$1,844 per capita. Partly due to funding a large portion of the current year's debt service with annual GO bond issuances, the district's carrying charge remains high, at 32.8%. Debt amortization is fairly rapid with 62% of debt scheduled to be repaid within 10 years. The district does not have any additional debt plans.

The district contributes to the Illinois Municipal Retirement Fund and continues to meet 100% of its annual required contributions, which totaled \$385,088, or 2.8% of total government funds expenditures in fiscal 2014. The pension fund has an 85.4% funded ratio and \$1.5 million unfunded liability. The district does not pay retiree health care benefits at

its own cost.

Outlook

The stable outlook reflects Standard & Poor's expectation that the district will continue to operate with very strong reserves in the combined general and recreation funds, despite planned drawdowns and transfers to the capital projects fund. Although market values have declined, the overall depth and strength of the underlying tax base and surrounding employment base adds rating stability. We do not expect to change the rating during the two-year outlook period because we expect management to continue to effectively monitor budget performance and fund balance levels, ensuring it achieves policy levels.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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