S&P Global Ratings

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Summary:

Waukegan Park District, Illinois; General Obligation

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Summary:

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Credit Profile		
US$12.0 mil GO pk bnds ser 2022A due 12/15/2041		
Long Term Rating	AA/Stable	New
Waukegan Pk Dist GO rfdg pk bnds		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Waukegan Park District, Ill.'s $12 million series 2022A general obligation (GO) park bonds (alternate revenue source). At the same time, we affirmed our 'AA' long-term rating on the district's existing GO bonds. The outlook is stable.

The bonds are secured by corporate fund taxes, proceeds from the district's annual rollover bond issuance, any other lawfully available funds, and unlimited ad valorem property taxes. The abatement language in the bond ordinance allows the district to abate the ad valorem tax levy annually in anticipation of having sufficient pledged revenues on hand to cover debt service (i.e., the abatement is uncovered); we have confirmed that the district has historically maintained ample cash prior to the June 15 and Dec. 15 debt service payment dates to allow it to make payments were other pledged revenues insufficient. Officials will use 2022A bond proceeds to finance various capital improvements, principally including the conversion of an existing Carnegie Library building into an education and cultural center.

Credit overview

The district's strong record of operational stability has continued through the COVID-19 pandemic as reflected in consecutive budget surpluses in fiscal 2021 (ended April 30) and the just-completed fiscal 2022. The fiscal 2023 budget incorporates an 8% employee cost-of-living adjustment (COLA) and reflects a modest deficit, which we believe is likely surmountable by year-end with some favorable budget variances. While the district's strong financial position and demonstrated record of operational stability underwrite its credit stability at the 'AA' rating, the key upside rating constraint remains its weaker-than-average economy, as reflected in per capita and household wealth and income measures that are well below those typical of similarly rated credits. We thus believe that upside rating potential will most likely turn on ongoing improvement in key economic metrics to levels that better align with what we typically see among more highly rated credits, which we do not anticipate occurring within our outlook period.

The 'AA' rating also reflects our view of the district's:

- Location within the Chicago metropolitan area within approximately one hour of both downtown Chicago and Milwaukee;

- Stable and consistent operations supported largely by property taxes, with very strong available reserves that have historically been well above the 30% minimum required by the district's formal fund balance policy; and
- Moderate debt burden with no additional bonding plans and its overfunded pension fund with minimal liability for other postemployment benefits (OPEBs).

Environmental, social, and governance

Environmental, social, and governance (ESG) risks are neutral in our credit analysis.

Stable Outlook

Upside scenario

We could raise the rating if the district is able to maintain reserves at or near present levels, while seeing ongoing growth in wealth and incomes to levels that better align with more highly rated credits.

Downside scenario

We could lower the rating should the district draw its reserves below its 30% fund balance policy requirement without a plan for timely replenishment.

Credit Opinion

Strong operating record continues through the pandemic with very strong reserve balances offering additional flexibility

District operations are stable, as evident in five consecutive years of audited budget surpluses across the combined general, recreation, and special recreation funds. We understand that during past two fiscal years (2021 and 2022), the district elected not to lay off any staff in response to the COVID 19 pandemic and still managed positive operations amid cost savings from scaled back programming and facility utilization and strong revenue performance, particularly personal property replacement taxes (PPRT, a corporate income tax). The district also funds approximately two-thirds of its general and recreation fund budget from real estate taxes, which lends stability and predictability to revenue performance compared to districts that are more reliant on service charges.

Management's fiscal 2022 year-end estimates show an additional $337,000 surplus in the general and recreation funds (equal to 2.8% of combined expenditures). PPRT, in particular, outperformed the original budget by more than $1 million, while property tax collections were above budget (which assumed a 95% collection rate), and nontax revenues from the fitness center have recovered to pre-COVID-19 levels with membership nearing all-time highs. For fiscal 2023, the board approved a noteworthy 8% COLA in response to high inflation and tight labor market conditions. Despite this, the budget reflects a fairly modest 3.5% deficit across the general and recreation funds, which is similar in magnitude to budgeted deficits in prior years. We expect that some combination of favorable revenue variances and spending controls could produce balanced or better results by year-end, as has routinely been the case in past years, and we do not expect to see an unaddressed structural budget gap emerge, despite the outsized COLA reflected in this year's budget.

Minimum reserve balances of 30% are codified in a formal fund balance policy, and we expect reserves to remain well above the minimum requirement across all operating funds. The district's policy also allows for the transfer of excess reserves to the capital projects fund with board approval. The dollar amount of this regular transfer has been sizable relative to the budget in recent years and was just under $3 million in fiscal 2021. The ability to reduce the size of this annual transfer were additional funds needed to support operations lends substantial flexibility to the district's operating budget. We note as well that the capital fund also held a balance of $5.8 million at the end of 2021, compared to total capital outlays of $4.5 million, which, in our view, provides an additional source of budgetary flexibility.

Recent trend of strong valuation growth, though with wealth and income metrics remaining below average

The 21-square-mile park district is nearly coterminous with the city of Waukegan in Lake County, approximately 40 miles north of downtown Chicago and 50 miles south of Milwaukee. The district's equalized assessed value (EAV) has yet to return to its pre-Great Recession peak of approximately $1.62 billion (2009), although home-price appreciation and new construction have more recently contributed to EAV growth averaging a strong 7.7% per year from 2015 to 2020. Management reports that area home sales have remained strong through the pandemic as has new development, which should support continued near-term valuation growth. Based on 2021 valuation data, market value totaled $1.45 billion, yielding per capita market value of $51,022. Despite the recent trend of steady valuation growth, per capita wealth remains well below average for the district's 'AA' peer group.

Incomes are similarly below average, with median household and per capita effective buying incomes at 80% and 64% of U.S. levels, respectively, for the city of Waukegan. The area's largest employers have remained stable through the pandemic, however, and the countywide unemployment rate came to 5.3% in 2021, matching the U.S. rate and below that of the state. As noted, given how low the district's per capita and wealth and income are relative to national peers, upside rating potential at the 'AA' rating level, will, in our view, require sustainable improvements these key areas.

The district owns and operates 48 park sites across 742 acres, with major facilities including two golf courses; a recreation center; a cultural center; an outdoor swimming pool' a museum; a field house sports, fitness, and aquatics center; and numerous athletic fields. It pays a third party to manage golf course operations, maintenance, and food and beverage operations. Major programming areas include arts, athletics, general recreation, and special events. The district also sponsors the Waukegan Symphony Orchestra and Concert Chorus.

Strong financial management policies and practices with emphasis on multiyear planning

The district has policies and practices in most key areas that we believe are supportive of credit quality. Management conducts historical trend analysis for revenue and expenditure assumptions and provides monthly budget-to-actual reports to the board. Long-term planning includes a three-year capital improvement plan and a sophisticated five-year financial model that management monitors and updates regularly. As noted, the district maintains a formal reserves policy to maintain at least 30% of operating expenditures in all funds, including the general and recreation funds. Cyber risk management practices align with what we see among sector peers.

Moderate debt burden with future bonding plans unlikely to materially change debt ratios

Direct debt totals $23.4 million, and we understand that the district's near-term bonding plans are limited to its regular rollover bond issuance of approximately $2 million. Its series 2021 GO limited-tax park bonds were privately placed; bond provisions do not allow for acceleration and include no provisions that otherwise favor the lender over public market debtholders.

Overfunded pension fund with little likelihood of meaningful pension and OPEB cost increases

The district participates in the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer pension plan, and its single-employer OPEB plan has only a small liability. As of Dec. 31, 2020, its IMRF plan was 107.6% funded with a net asset of $2.1 million. Actuarially determined pension contributions have traditionally been low and were just 2.3% of governmental fund expenditures in fiscal 2021. The plan's 7.25% investment rate of return assumption is well in excess of our 6.00% guidance and indicates some exposure to market risk, though we believe the district can absorb cost fluctuations without causing undue budgetary strain, particularly given how low costs are currently. The most recent actuarial valuation reflects an $882,200 OPEB liability (as of April 30, 2021), and we expect OPEB costs will remain de minimis as a share of total spending.

Waukegan Park District, IL -- Key Credit Metrics

	Characterization	Most recent	Historical information		
			2021	2020	2019
Economic indicators					
Population			85,453	86,075	86,792
Median household EBI % of U.S.	Adequate			80	80
Per capita EBI % of U.S.	Low			64	63
Market value ($000)		4,360,014	4,057,293	3,886,947	3,590,334
Market value per capita ($)	Adequate	51,022	47,480	45,158	41,367
Top 10 taxpayers % of taxable value	Very diverse		9.3	9.7	9.7
Financial indicators					
Total available reserves ($000)			3,690	3,114	3,160
Available reserves % of operating expenditures	Very strong		47.5	32.2	35.7
Total government cash % of governmental fund expenditures			93.0	75.1	106.9
Operating fund result % of expenditures			7.8	1.8	8.5
Debt and long-term liabilities					
Overall net debt % of market value	Moderate	4.4			
Overall net debt per capita ($)	Moderate	2,251			
Debt service % of governmental fund noncapital expenditures	Moderate		14.4	13.2	25.4
Direct debt 10-year amortization (%)	Average	58	100	100	100
Required pension contribution % of governmental fund expenditures			2.3	1.7	2.0
OPEB actual contribution % of governmental fund expenditures			0.5	0.4	0.5
Minimum funding progress, largest pension plan (%)			138.3	278.8	92.0

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006
- 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