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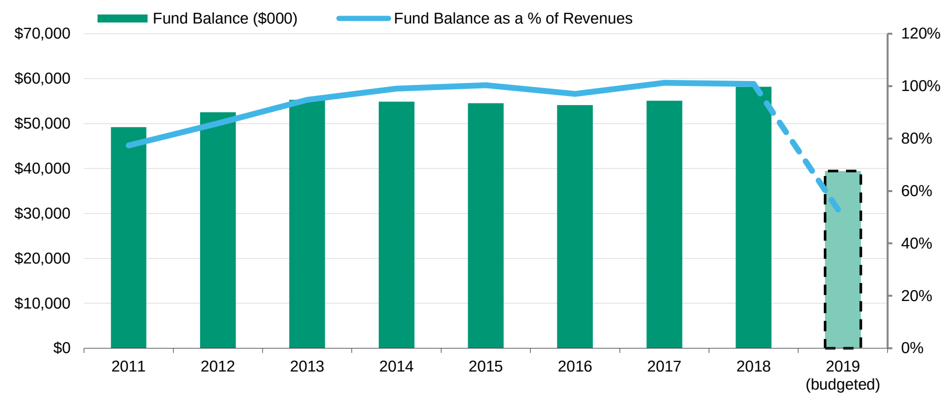
Lake County Forest Preserve District, IL

Update to credit analysis

Summary

The credit profile of Lake County Forest Preserve District, IL (Aaa) is characterized by a large and diverse tax base with strong wealth and income levels and very healthy reserves (see Exhibit 1). Additional strengths include the district's low pension burden and manageable debt burden.

Exhibit 1
Lake County Forest Preserve District has maintained very strong reserves, but plans to spend down for capital and reduce reserves to an amount nearer its fund balance policy



Source: Lake County Forest Preserve District, IL audited financial statements and budgets

Credit strengths

» Large and diverse tax base

» Above average wealth and income levels

» Maintenance of ample reserves

Credit challenges

» Limited revenue raising flexibility as operating property tax rates are near statutory maximums

» Operates three golf courses that have weakened but remain self-supporting

Rating outlook

Outlooks are usually not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Significant decline in reserves

» Substantial increase in the district's debt burden

» Deterioration of Lake County's (Aaa) credit profile that weakens the district's credit quality given the two entities' governance ties and coterminous tax base

Key indicators

Exhibit 2

Lake County Forest Preserve District	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$68,972,791	$68,008,541	$70,380,510	$74,780,199	$78,093,286
Population	703,170	702,898	702,890	704,476	704,476
Full Value Per Capita	$98,088	$96,754	$100,130	$106,150	$110,853
Median Family Income (% of US Median)	142.0%	141.9%	143.0%	142.5%	142.5%
Finances					
Operating Revenue ($000)	$55,420	$54,336	$55,747	$54,385	$57,691
Fund Balance ($000)	$54,867	$54,508	$54,112	$55,081	$58,196
Cash Balance ($000)	$58,662	$55,698	$54,420	$55,685	$58,005
Fund Balance as a % of Revenues	99.0%	100.3%	97.1%	101.3%	100.9%
Cash Balance as a % of Revenues	105.8%	102.5%	97.6%	102.4%	100.5%
Debt/Pensions					
Net Direct Debt ($000)	$296,250	$281,820	$291,590	$277,325	$262,030
3-Year Average of Moody's ANPL ($000)	$26,625	$33,721	$40,668	$50,683	$51,597
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.4%	0.3%
Net Direct Debt / Operating Revenues (x)	5.3x	5.2x	5.2x	5.1x	4.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.6x	0.7x	0.9x	0.9x

The district's full value grew to $79.8 billion in 2019
Source: Lake County Forest Preserve District, IL audited financial statements, US Census Bureau, Moody's Investors Service

Profile

The district preserves and manages almost 31,000 acres of land and provides educational programs and recreational activities to a service area that is coterminous with Lake County. The district's population is estimated at nearly 705,000.

Detailed credit considerations

Economy and tax base: sizeable tax base coterminous with Lake County

We expect the district's economy and tax base will remain a credit strength supported by a favorable location along Lake Michigan between the City of Chicago (Ba1 stable) and Milwaukee (A1 stable). The district's very large $79.8 billion tax base has grown each of the past four years, but still remains 12.8% below its peak of $91.6 billion in 2009. Wealth, measured by a full value per capita of $110,853, and income, measured by a median family income that is 142.5% of the nation's, are both above average. As of June 2019, Lake County's unemployment rate of 3.5% was slightly below both the state's (4%) and nation's (3.8%).

Financial operations and reserves: despite planned draws, reserves will remain strong

Despite plans for reserve draws in coming years, we expect the district's financial position to remain a credit strength. The district closed fiscal 2018 with an available operating fund balance (inclusive of the general, land development, retirement, and debt service funds) of $58.2 million or a very ample 100.9% of revenues. The balance includes $26.8 million in the general fund, $11.2 million in the land development fund, $1.3 million in the retirement fund, and $18.8 million in the debt service fund. The district is permitted to transfer property taxes from the land development fund to the general fund five years after the receipt of those property taxes, but has no plans to do so.

Officials project fiscal 2019 will close with a planned operating deficit of $18.7 million in accordance with the district's goal of reducing fund balance to approximately 50% of the subsequent year's budgeted expenditures. Fiscal 2019 will be an 18 month period spanning from July 1, 2018 to December 31, 2019, to better match the district's fiscal year to its primary activities. The planned operating deficit would reduce available operating fund balance to approximately 75% of the district's annual budget when adjusting for the 18 month fiscal period. Future drawdowns are planned and will be driven by increased capital expenses, with management projecting fund balance to reach 50% by fiscal 2028.

LIQUIDITY

The district closed fiscal 2018 with an operating fund net cash balance of $58 million, or a very healthy 100.5% of revenues.

Debt and pensions: manageable debt burden with no future borrowing plans, modest unfunded pension liabilities

The district's debt burden will remain modest relative to its tax base and elevated relative to operating revenue given its average amortization schedule and no future debt plans. At the close of fiscal 2018 the district's debt burden was $262 million, representing a modest 0.3% of full value and an elevated 4.5x fiscal 2018 operating revenue. The district is issuing refunding bonds in August 2019 and following the issuance the debt will moderate to $236.6 million. Given that the district has no future debt plans and will be cash financing capital projects, we expect the debt burden to moderate in coming years.

The Moody's three-year average adjusted net pension liability (ANPL) of the district is $51.6 million, representing a low 0.1% of full value and 0.9x operating revenue. The ANPL is our measure of a local government's pension burden that uses a market-based interest rate to value accrued pension liabilities. Fixed costs, which consist mostly of debt service, but also includes pension contributions and the implicit cost associated with post employment health care benefits, totaled $27.7 million in fiscal 2018, equivalent to a high 48% of operating revenue.

DEBT STRUCTURE

Principal amortization is average with 75% of GO debt retired within ten years. The district has one series of variable rate bonds, which represents just 6.6% of the district's outstanding debt. Interest on the GOULT Refunding Bonds, Series 2007A bonds is based on LIBOR and is payable four times annually. The bonds are not puttable nor subject to tender and are therefore not subject to put or remarketing risk. Interest rate risk has been offset by swap agreements hedging all of the district's variable rate debt.

DEBT-RELATED DERIVATIVES

The district has one floating to fixed rate swap with JPMorgan Chase & Co. (A2 stable) to hedge interest rate risk on its variable rate bonds. The district received an upfront payment from the swap provider of $2.2 million, equivalent to the net present value of the refunding savings from the Series 2007A bonds. Under the terms of the swap agreements, the district makes payments to the counterparty based on a fixed interest rate of 4.52% in exchange for payments from the counterparty based on LIBOR. As of June 30, 2018, the swap had a present value mark-to-market valuation of negative $484,000.

PENSIONS AND OPEB

The district is a member of the Illinois Municipal Retirement Fund (IMRF), a defined benefit, mutli-employer agent plan. The Moody's ANPL referenced above reflects the use of a market-based discount rate to value the plans' liabilities. In fiscal 2018, pension contributions were 103.4% of the “tread water”[1] The district offers other post employment benefits (OPEB) in the form of retiree health insurance, although the costs to the district are modest.

Management and governance: strong institutional framework

Illinois park districts have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property tax caps apply to the rate or the operating levy amount. Most districts have little headroom under property tax caps, which can be overridden with voter approval. Lake County Forest Preserve District has little room under applicable property tax caps, and levy increases are also limited by the Property Tax Extension Limitation Law (PTELL), which limits growth to the lesser of 5% or the percentage increase in the consumer price index. Most districts can increase user rates or charges, although competition can create practical limitations. Revenue and expenditures tend to be predictable. Across the sector, fixed costs are generally affordable, and most districts have high expenditure flexibility to cut programs and staffing. Some districts operate unprofitable enterprises, which can pressure credit quality. Lake County Forest Preserve District operates three golf courses that do not currently require general fund support.

Endnotes

1 Our tread water indicator measures the annual government contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year.

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