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Summary:

Frankfort Square Park District, Illinois; General Obligation

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Credit Profile

Frankfort Square Pk Dist GO		
<i>Long Term Rating</i>	A/Negative	Outlook Revised
Frankfort Square Pk Dist GO (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Negative	Outlook Revised

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services revised its outlook to negative from stable and affirmed its 'A' long-term rating and underlying rating (SPUR) on Frankfort Square Park District, Ill.'s existing general obligation (GO) bonds. The negative outlook reflects our view of the district's recent general and recreation fund deficits, which have caused the district's cash reserves to fall to a level that we consider low.

Partly offsetting these factors is the district's:

- Participation in the deep and diverse Chicago metropolitan area economy;
- Very strong wealth and income levels; and
- Very diverse tax base.

The district's bonds are secured by its corporate (general) fund revenues and, to the extent that pledged revenues are insufficient, by an unlimited ad valorem property tax pledge. The district will levy property taxes each year to cover principal and interest on the bonds, but will abate them to the extent that pledged revenues are available to pay debt service.

The district is located approximately 25 miles southwest of downtown Chicago and 12 miles east of Joliet, Ill. It includes all of unincorporated Frankfort Square and portions of the villages of Frankfort, Matteson, and Tinley Park. The population served is estimated at 18,000. District residents have access to a wide variety of employment opportunities both locally and throughout the Chicago metropolitan area via several interstate and U.S. highways. In addition, residents can commute to downtown Chicago via the Metra train system. Median household effective buying income (EBI) in Frankfort Square was 149% of the national average in 2014, which we consider very strong. Equalized assessed valuation (AV) has decreased by a 4.4% annual average since 2011 to \$490 million in 2014. The fair market value of the tax base is approximately \$1.47 billion or \$81,826 per capita, which we consider very strong. The 10 leading taxpayers account for a very diverse 3.6% of the total tax base.

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. The district uses the modified cash basis of accounting. The district has posted deficits in three out of the

past four audited fiscal years in its general and recreation funds. After reporting a \$134,000 deficit in fiscal 2014 (year ended April 30), the district reported another \$92,000 deficit in these funds in fiscal 2015. The district attributes the deficits to necessary capital expenditures, including roof repairs and furnace replacements, which required the use of the available fund balance. Further contributing to the recent drawdowns were the district's escalating employee and benefit costs and flat revenues. At fiscal year-end 2015, the district had \$40,143 in funds available in its general and recreation funds, or 1.3% of expenditures, which we consider low. The district receives its largest property tax distribution after the fiscal year ends, so its available cash reserves are at a low point, as reflected in its annual audit. The district issued tax anticipation warrants in the amount of \$450,000 for cash-flow purposes in 2015.

The district has attempted to make adjustments to its expenditures to achieve structural balance. Officials indicate that they have reduced staff from 16 employees to 12 employees in fiscal 2016. In addition, the district has changed its health insurance and workmen's compensation plans, which have generated savings. As a result of these changes, management indicates that it is running a surplus of \$175,000 to \$200,000 in the general and recreation funds this year. In March 2016, the district recently sought referendum approval for \$3.5 million in additional revenue, primarily for capital improvements. The initiative was defeated by a slim margin. The district has no immediate plans to return to voters for a referendum. Officials indicate that they intend to reduce discretionary spending by 15% and place a freeze on capital spending until their available fund balance reaches \$400,000.

Highlights of the district's management practices include monthly budget and investment reports to the board, budget assumptions based on historical trends, and a five-year capital plan that schedules district needs and improvements by year and cost. The district does not adhere to any formal debt management or fund balance reserve policies.

In our opinion, the district's overall debt burden, including overlapping debt, is moderately high at 6.5% of market value, yet high at \$5,282 per capita. Because the district funds its debt service through annual GO bonds secured by its debt service extension base, carrying charges are high at 27% of total governmental fund expenditures, less capital outlay. It is our understanding that the district does not have any additional debt plans at this time.

Outlook

The negative outlook reflects our view that there is at least a one-in three likelihood that we could lower the rating during our two-year outlook horizon. We could lower the rating if the district continues to draw down its reserves. In addition, with the recent defeat of the district's proposed referendum, if the district is unable to adequately address capital projects without creating budget pressure, the rating could be lowered. However, if the district were to stabilize its general and recreation fund cash position at a level that we consider adequate on a cash basis and we believe that it has restored structural balance, we could revise the outlook to stable.

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

Related Research

Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006

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