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Ratings

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Summary:

Frankfort Square Park District, Illinois; General Obligation

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Summary:

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Credit Profile		
US$1.4 mil GO pk bnds ser 2018 due 01/01/2039		
Long Term Rating	A-/Stable	New
Frankfort Square Pk Dist GO		
Long Term Rating	A-/Stable	Downgraded
Frankfort Square Pk Dist GO (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Downgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings lowered its long-term rating and underlying rating (SPUR) to 'A-' from 'A' on Frankfort Square Park District, Ill.'s existing general obligation (GO) bonds. At the same time, we assigned our 'A-' long-term rating to the district's series 2018 GO park bonds. The outlook is stable.

The downgrade reflects our view of the district's exposure to bank loans primarily for equipment with permissive events of default, which, coupled with the district's relatively weak liquidity levels, could potentially create fiscal stress should the loans be accelerated.

The district's 'A-' rating reflects our view of the following characteristics:

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

Partly offsetting these characteristics are the district's, adequate, though nominally thin cash reserve and high debt service carrying charges.

The district's series 2018 bonds are secured by its unlimited tax GO pledge. The district sought referendum approval for the series 2018 bonds, which were authorized by district voters in March 2018. Proceeds from the series 2018 bonds will be used for purchasing and improving land for new parks and improving existing parks and facilities of the district.

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 district serves a population of 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 131% of the national average in 2016, which we consider very strong. Equalized assessed valuation (AV) has increased by an annual average of 1.5% since 2014 to $521 million in 2017. The fair market value of the tax base is approximately $1.56 billion or $86,998 per capita, which we consider very strong. The 10 leading taxpayers account for a very diverse 6.9% 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 currently levies at its maximum rate for both its general and recreation funds. The district uses the modified cash basis of accounting. After experiencing deficits in fiscals 2014 and 2015, the district has posted surpluses the past two audited fiscal years in its general and recreation funds. After reporting a $143,000 surplus in fiscal 2016 (year ended April 30), the district reported another $172,000 surplus in these funds in fiscal 2017. At fiscal year-end 2017, the district had $169,000 in funds available in its general and recreation funds, or 5.3% of expenditures, which we consider adequate on a cash basis. The district receives its largest property tax distribution shortly after the fiscal year ends, so its available cash reserves are low as reflected in its annual audit.

The district credits its recent financial performance to a number of factors. First, it made adjustments to its expenditures to achieve structural balance. Officials indicate that they reduced staff from 16 employees to 11 employees. In addition, the district has changed its health insurance and workmen's compensation plans, which have generated savings. Specifically, the district has been able to reduce insurance costs by outsourcing high-risk maintenance activities. On the revenue side, the district created before and after-school programs, fitness center programming, and a dance program which have assisted with generating additional revenue. With regard to fiscal 2018, the district estimates it will post a $250,000 surplus, which was driven by some of fiscal adjustments described above. This would bring its available cash reserve to approximately $420,000, or 13% of anticipated expenditures, a level that we would consider good. We understand that the district's board expects to adopt a budget with another surplus of at least $200,000 for fiscal 2019.

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 moderate at 5.6% of market value and $4,908 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 29% of total governmental fund expenditures, less capital outlay. Amortization of the district's debt is rapid, with 75% of its debt due to be retired within 10 years. It is our understanding that the district does not have any additional debt plans at this time.

As indicated above, the district is a party to bank loans primarily for equipment with a single bank, which contain permissive events of default that could potentially trigger an immediate acceleration against the district for the full amounts owed pursuant to the loans. The dollar amount of bank loans potentially subject to immediate acceleration totals approximately $400,000, which is slightly greater than the recent low point of cash held by the district, less liabilities, in March 2018 of $371,692. While we view the likelihood of the bank triggering a default leading to an

acceleration as being fairly remote, we consider the district's relatively thin liquidity, given this risk, as a credit weakness.

Outlook

The stable outlook reflects our view of the district's creditworthiness in light of its fairly weak cash levels and exposure to bank loan default acceleration terms. We do not anticipate a future liquidity risk posed by these acceleration terms during the next two years, reflecting the stable outlook. We do not anticipate changing the rating during the two-year outlook horizon.

Downside scenario

Should the district experience a decline in its cash reserve caused by an acceleration of amounts owed pursuant to bank loans to which it is a party, the rating could be lowered. In addition, if the district were to experience a weakening of budgetary performance leading to drawdowns of its cash reserve, a lower rating is possible.

Upside scenario

Should the district is able to demonstrate good financial performance and improve its reserves significantly, we could raise the rating.

Related Research

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

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