

# RatingsDirect®

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## Summary:

# Frankfort Square Park District, Illinois; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Research

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### Credit Profile

US\$1.62 mil GO rfdg pk bnds (alternate rev source) ser 2019B due 01/01/2031		
<i>Long Term Rating</i>	A-/Stable	New
US\$0.665 mil GO rfdg pk bnds (alternate rev source) ser 2019A due 01/01/2030		
<i>Long Term Rating</i>	A-/Stable	New
Frankfort Square Pk Dist GO		
<i>Long Term Rating</i>	A-/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'A-' long-term rating to Frankfort Square Park District, Ill.'s series 2019A and 2019B general obligation (GO) alternate revenue source (ARS) refunding bonds. At the same time, we affirmed our 'A-' long-term and underlying ratings on the district's existing GO debt. The outlook is stable.

### Security and use of proceeds

The series 2019A and 2019B bonds are secured by the district's unlimited-tax GO pledge and by specific additional revenue pledges. Because we view the district's GO pledge as stronger than the additional revenue pledges, we rate the bonds to its GO rating. The series 2019A and 2019B bonds are alternate revenue bonds and are structured with an uncovered abatement. Historically, the district has had sufficient cash at the dates of the planned debt service for the bonds (January 1 and July 1) that exceeds the scheduled amount of principal and interest; in our view, these liquidity levels mitigate the risk of abating the tax levy. Proceeds will refund portions of the district's outstanding series 2009 and 2010 GO ARS bonds for level savings.

### Credit overview

The district has generated uneven performance over the last several years across its general, recreation, and special recreation funds, and has maintained a negative unassigned balance for two consecutive years. Operations appear to be improving, following structural budget adjustments. While we believe the district's recent paying off of bank loans will improve its financial health (in part because of the reduction in contingent liability risk surrounding the loans' permissive events of default), overall, its cash reserves remain thin, as evidenced by its previous issuance of cash flow notes.

The ratings also reflect the district's:

- Participation in the deep and diverse Chicago metropolitan area economy, with its own very strong and diverse tax base; and
- Moderate debt burden with high carrying charges.

## **Economy**

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, serving 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 interstates and U.S. highways. Residents can also commute to downtown Chicago via the Metra train system.

Median household effective buying income in Frankfort Square is 128% of the national average, which we consider very strong. Equalized assessed valuation has increased by an annual average of 3.4% since 2016, to \$561 million in 2019. The fair market value of the tax base is approximately \$1.68 billion, or \$93,500 per capita, which we also consider very strong. The 10 leading taxpayers account for a very diverse 6.8% of the total tax base.

## **Finances**

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. It currently levies at its maximum rate for both its general and recreation funds, using a modified cash basis of accounting.

Following an unexpected deficit across the general and recreation funds in 2018, which management attributes to the timing of grants, the district generated a minor surplus in fiscal 2019 (year-end April 30), according to the draft audit. The 2019 surplus was smaller than initially projected, in part because the district prepaid approximately \$100,000 in outstanding loans. Officials note that contracting for more services, and a subsequent decrease in insurance costs, is a contributing factor to the improved operations. The district issued and paid off \$350,000 in tax anticipation warrants in 2019, less than was paid in fiscal 2018 (\$450,000), due to improved cash flow.

Despite the minor positive result, as of fiscal 2019, the district's available cash reserves remain weak, in our view. The unassigned general and recreation funds cash balances (on a modified cash basis) remain negative, at negative 5% of expenditures, or negative \$167,000. 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. Even considering that factor, we consider its thin cash position to be a credit weakness.

In the current fiscal year (ending April 30, 2020), management indicates that the district sold property and used the \$99,000 in proceeds to pay down existing loans. The district issued \$350,000 in tax anticipation warrants for cash flow purposes and has already paid them off in full. By eliminating one staff position and delaying hiring on another, management expects to generate operational savings, and projects ending cash balances to improve by at least \$150,000 over fiscal 2019.

Officials indicate future equipment purchases will be made out of the budget, instead of issuing series of small loans with a local bank, as it has done in the past. Not only will this reduce ongoing costs associated with those loans, but because the loans had typically included permissive events of default and acceleration provisions, we believe contingent liability risk will be significantly reduced. Given the district's thin cash reserves, we view the reduction in usage of bank loans as a positive credit factor.

The district operates a 10-hole golf course and driving range, which required a transfer in from other funds due to negative operating results in 2019.

### **Management**

Highlights of the district's management practices include monthly budget and investment reports to the board, with budget assumptions based on historical trends. The district maintains a list of capital projects being financed by a voter-approved 2018 referendum. The district is actively addressing cybersecurity, with a contractor managing all technology and a security breach response plan in place, among other efforts.

The board recently passed a fund balance policy stating a goal of increasing the combined unassigned fund balance across certain funds to 4.25% of combined expenditures in fiscal 2020, increasing annually until reaching 9% in fiscal 2024. In our view, given that the unassigned fund balance in the general and recreation funds is – negative 5% as of fiscal 2019, the district may be challenged in adhering to its new fund balance policy.

### **Debt and Liabilities**

In our opinion, the district's overall debt burden, including overlapping debt, is moderate, at 5.0% of market value and \$4,630 per capita. Because it funds its debt service through annual GO bonds secured by its debt service extension base, carrying charges are high, at 26% of total governmental fund expenditures, less capital outlay. Debt amortization is fairly rapid, with 71% of debt due to be retired within 10 years.

Management describes the district's capital infrastructure as being in great condition, and accordingly, there are no plans to issue additional debt in the near term. Officials may consider implementing broader projects over time, but those plans will depend heavily on future community input.

The district is a party to one bank loan 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 district has been actively paying down these loans, and there is only approximately \$52,000 outstanding. Compared with its general and recreation fund's available cash at fiscal year-end 2019 in the draft audit (excluding the amount owed to pay off tax anticipation warrants), the district had about 3.8x coverage in the event of accelerated debt service. 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.

The district participates in a contributory pension plan only, and accordingly has no pension liabilities outstanding.

### **Outlook**

The stable outlook reflects our view of the district's creditworthiness in light of its fairly weak cash levels and ongoing, although substantially reduced, 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, and this is reflected in the stable outlook. We do not anticipate changing the rating during the two-year outlook horizon.

### Upside scenario

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

### Downside scenario

Should the district experience an unexpected decline in its cash reserve, we could lower the rating.

## Related Research

- 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

### Ratings Detail (As Of September 19, 2019)

Frankfort Square Pk Dist GO (AGM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Affirmed
Frankfort Square Pk Dist GO (BAM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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