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Summary:

Kane County Community Unit School District No. 304 (Geneva), Illinois; General Obligation

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Credit Profile		
Kane Cnty Comnty Unit Sch Dist #304 Geneva GO (FGIC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
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Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' rating and underlying rating (SPUR) on Kane County Community Unit School District No. 304 (Geneva), Ill.'s general obligation (GO) school bonds. The outlook is stable.

The ratings reflect our opinion of the district's:

- Participation in the Chicago metropolitan area's deep and diverse economy,
- Very strong income level;
- Very strong financial reserves; and
- Moderate overall debt burden with no immediate major capital needs due to stable enrollment.

Partly offsetting these factors is revenue inflexibility now that the district is taxing at its maximum operating rates following a substantial decrease in its tax base valuation.

The bonds are payable from unlimited ad valorem taxes.

The district primarily serves the city of Geneva, which is about 35 miles west of downtown Chicago. The district provides K-12 education and operates six elementary schools, two middle schools, and one high school. The 13-square-mile district had until 2008 experienced moderate residential and enrollment growth, primarily in its western portion. Both residential and enrollment growth have slowed substantially since then due to the regional housing market slowdown. Enrollment decreased 1.3% between 2009-2010 and 2014-2015, to 5,887. With growth returning to the area, management expects enrollment to grow about 1% annually over the next few years. Residents have access to a wide variety of employment opportunities in the western suburbs, including nearby Naperville and the Interstate 88 corridor, and can commute to Chicago via Metra commuter rail. Geneva's median household effective buying income is very strong, in our view, at 177% of the national level.

Due to the recent recession's impact on property values, the district's equalized assessed valuation (AV) dropped 16% from 2008 to 2013. Estimated market value is $3.7 billion, which in our view is an extremely strong $129,300 per capita. The tax base is very diverse, with the 10 largest taxpayers accounting for only 7% of equalized assessed value.

Because the district receives only a small amount of state aid on an alternate grant basis, it relies on property taxes for most of its operational funding. Total state aid provided 24% of educational account revenue in fiscal 2014 (June 30), while property taxes provided 74%. Property tax revenues are subject to the Property Tax Extension Limitation Law (PTELL), which limits operating levy increases to the lesser of 5% or the rate of inflation, except with regard to new construction. Because of the recent in equalized AV since 2008, the district now taxes at its maximum rates for its educational and operations & maintenance (O&M) funds and is not at this time able to take its levy increases allowed under PTELL.

For fiscal 2014, the district reported a $5.35 million shortfall for the combined educational and O&M funds following a $5.9 million discretionary transfer from the educational fund to abate debt service taxes. As a result, the combined balance for the two accounts decreased to $23.3 million, all of which is unassigned, which is a very strong 29.5% of expenditures. Liquidity is also very strong, with cash and investments for the two accounts totaling $26.7 million (34% of expenditures) at the end of fiscal 2014, while the working cash fund held another $14.3 million of cash and investments (18%).

The district structured its 2015 educational fund budget with an $800,000 shortfall caused by a $2.6 million in transfers from the educational fund to abate debt service taxes. To reduce reserves closer to the district's fund balance goal, the district structured its O&M budget with a $2 million shortfall due to capital expenditures. Management reports that the district is on target with its educational fund and O&M fund budgets as of midyear.

The district's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment. This indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. The district builds its budget using its own enrollment projections, and tracks residential and tax base growth by contacting various governments and developers regularly. Each month, management reviews revenues and expenditures and reports to the board. Financial projections are done for the current year and four subsequent years and are updated annually. Capital spending is budgeted with the help of the district's state-mandated 10-year life safety plan and a five-year facilities master plan that management states will be updated every five to 10 years. The district invests according to state statutory guidelines and provides a monthly investment report to the board. The board-approved fund balance policy calls for unrestricted cash in the operating and working cash funds to equal at least 30% of the following year's expenditures.

The district's overall debt burden is, in our opinion, moderate at $6,650 per capita and 5.1% of market value. Due to rapid amortization, debt service carrying charges were an elevated 17% of total governmental funds less capital outlays in fiscal 2014. About 75% of outstanding bonds are scheduled to mature within 10 years and 100% by 2027. Due to stable enrollment, the district does not have debt plans at this time.

The district's teachers are covered by the state-sponsored Teachers' Retirement System to which the state makes all employer contributions on behalf of the district. Nonteaching staff are covered by the Illinois Municipal Retirement Fund (IMRF), a multiple-employer defined-benefit pension system to which the district pays its full annual pension cost each year. The district's IMRF account was 83% funded as of Dec. 31, 2013. The district's liability for retiree health care is limited to payments for some of its retired teachers. No subsidy is provided for nonteaching staff, who are allowed to buy into the district's health insurance plan at their own expense until age 65. The district paid a total of

$1.5 million in pension and retiree health care costs in fiscal 2014, which amounted to only 1.5% of total governmental expenditures.

Outlook

The stable outlook reflects our expectation that the rating will not change within the next two years because we believe the district will maintain at least balanced operations and very strong reserves despite the slowdown in housing growth. The district's participation in the Chicago metropolitan area's diverse economy supports the outlook. Although not expected, we may lower the rating if the district experiences a fiscal imbalance that substantially reduces its operating reserves. A higher rating is precluded at this time by the district's revenue inflexibility.

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

Ratings Detail (As Of February 2, 2015)		
Kane Cnty Comnty Unit Sch Dist #304 Geneva GO		
Long Term Rating	AA+/Stable	Affirmed
Kane Cnty Comnty Unit Sch Dist #304 Geneva GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Illinois Dev Fin Auth, Illinois		
Kane Cnty Comnty Unit Sch Dist #304 Geneva, Illinois		
Illinois Dev Fin Auth (Kane Cnty Comnty Unit Sch Dist #304 Geneva) GO (AGM)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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