

RatingsDirect®

Summary:

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

Primary Credit Analyst:

Andrew J Truckenmiller, Chicago (1) 312-233-7032; andrew.truckenmiller@spglobal.com

Secondary Contact:

David H Smith, Chicago (312) 233-7029; david.smith@spglobal.com

Table Of Contents

Rationale

Outlook

Summary:

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

Credit Profile

US\$32.44 mil GO rfdg sch bnds ser 2016 due 01/01/2030

Long Term Rating AA+/Stable New

Kane Cnty Comnty Unit Sch Dist #304 Geneva GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Kane County Community Unit School District No. 304 (Geneva), Ill.'s series 2016 general obligation (GO) refunding school bonds and affirmed its 'AA+' rating, with a stable outlook, on the district's existing GO debt.

The series 2016 bonds are payable from unlimited ad valorem taxes. Officials intend to use series 2016 bond proceeds to refund the district's series 2001A and 2007A bonds outstanding for interest cost savings.

The rating reflects our opinion of the district's:

- Participation in the Chicago metropolitan area's deep and diverse economy,
- Very strong income,
- Very strong financial reserves, and
- Moderate overall net market value debt.

We believe what we consider the district's high overall net debt per capita somewhat offsets these factors.

The district primarily serves Geneva, about 35 miles west of downtown Chicago. The district provides kindergarten through twelfth-grade education through six elementary schools, two middle schools, and one high school. Residents have access to a wide variety of employment opportunities in the western suburbs, including nearby Naperville and the Interstate 88 corridor; in addition, they can commute into Chicago via Metra commuter rail. Geneva's median household effective buying income is very strong, in our view, at 164% of the national level.

Due to the recession's effect on property values, the district's equalized assessed valuation (AV) dropped by 16% from fiscal years 2008-2013. However, since fiscal 2013, AV increased by 0.84% and 2.79% in fiscal years 2014 and 2015, respectively. Estimated market value is \$3.9 billion, which, in our view, is an extremely strong \$128,194 per capita. The property tax base is very diverse with the 10 leading taxpayers accounting for only 7.5% of equalized AV.

Student enrollment decreased by 1.7% between school years 2012-2013 and 2016-2017 to 5,735. With growth returning to the area and residential developments, management expects enrollment to increase by 0.5% to 1% per year over the next few years.

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

Because the district receives only a small amount of state aid on an alternate grant basis, it relies on property taxes for most operational funding. Total state aid provided 5.73% of educational account revenue in fiscal 2015, ended June 30, and property taxes provided 73%. Property tax revenue is 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 overall decline in equalized AV since fiscal 2008, the district now taxes at the maximum rate in its operations-and-maintenance (O&M) fund; it is currently taking the levy increases allowed under the PTELL.

For fiscal 2015, the district reported a \$1.4 million surplus for the combined educational and O&M funds following a \$1.6 million discretionary transfer from the educational fund to abate debt service taxes. Therefore, the combined balance for the two accounts increased to \$24.7 million, all of which is unassigned, or a very strong 30.9% of expenditures. The working cash fund held another \$14.3 million of cash and investments, providing additional liquidity for operations. Total operating unassigned reserves were \$39 million at fiscal year-end 2015, or, what we consider, a very strong 48.8% of operating expenditures.

For fiscal 2016, the district's unaudited results show a \$2 million deficit for the combined education and O&M funds following a \$5.8 million discretionary transfer from the education fund to abate debt service taxes. The district's goal is to maintain a minimum education fund balance of \$15 million, and it uses any surplus amount to abate debt service.

For fiscal 2017, the education fund includes an approximate \$1 million surplus and the O&M fund includes a \$2.5 million deficit. Management attributes the O&M deficit to capital projects for school maintenance.

We consider the district's financial management practices good under our Financial Management Assessment methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Elements of the district's financial management include its:

- Realistic and well-grounded assumptions when setting the annual budget;
- Monthly budget-to-actual monitoring with reports to the school board;
- Formal five-year financial forecast that it updates and presents to the board annually;
- Formal seven-year facilities capital plan that it updates and presents to the board annually, coupled with the state-mandated 10-year safety plan;
- Adherence to state statutes regarding investing with monthly investment reports to the board;
- Lack of a formal debt management policy; and
- Formal fund balance policy, which calls for unrestricted cash in the operating and working cash funds to equal, at least, 30% of the following year's expenditures.

Overall debt is, in our opinion, high at \$5,452 per capita, or moderate at 4.3% of market value. Due to rapid amortization, debt service carrying charges were an elevated 17.9% of total governmental funds, less capital outlays, in fiscal 2015. However, we note that after the series 2016 refunding, debt service carrying charges will be approximately 13.8%. Officials plan to retire about 77% of bond principal within 10 years and 100% within 11 years. The district plans to issue GO debt to refund the series 2008 bonds in fall 2017.

The state-sponsored Illinois Teachers' Retirement System--to which the state makes all employer contributions on

behalf of the district--covers the district's teachers. The Illinois Municipal Retirement Fund (IMRF)--a multiemployer, defined-benefit pension system to which the district pays its full annual pension cost each year--covers nonteaching staff. The district's IMRF account was 92% funded, as of Dec. 31, 2014. The district's liability for retiree health care is limited to payments for some retired teachers. The state does not provide a subsidy for nonteaching staff, who can buy into the district's health insurance plan at their own expense until age 65. The district's pension and retiree health care expense amounted to only 1.4% of total governmental expenditures in fiscal 2015.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that it will likely not change the rating within the next two years because it believes the district will likely maintain, at least, balanced operations and very strong reserves. We also believe the district's participation in the Chicago metropolitan area's diverse economy supports the outlook.

Upside scenario

We could raise the rating if overall debt were to improve to levels we consider comparable with the district's higher-rated peers.

Downside scenario

We could lower the rating if the district were to experience a fiscal imbalance that substantially reduces operating reserves.

Ratings Detail (As Of September 14, 2016)

Kane Cnty Comnty Unit Sch Dist #304 Geneva GO ltd tax sch bnds ser 2007B dtd 07/01/2007 due 01/01/2008-2021		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

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

Kane Cnty Comnty Unit Sch Dist #304 Geneva GO

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
--------------------------	------------------	----------

Illinois Finance Authority, Illinois

Kane Cnty Comnty Unit Sch Dist #304 Geneva, Illinois

Illinois Dev Fin Auth (Kane Cnty Comnty Unit Sch Dist #304 Geneva) GO (AGM)

<i>Unenhanced Rating</i>	AA+(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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2016 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.