

ISSUER COMMENT

12 May 2020

RATING

General Obligation (or GO Related) ¹

A1 No Outlook

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Lake County School District 37 (Gavin), IL

Annual Comment on Gavin SD

Issuer Profile

Lake County School District 37 (Gavin) is located in northeastern Illinois and is headquartered in Ingleside, approximately 45 miles northwest of Chicago. The county has a population of 703,619 and a high population density of 1,572 people per square mile. The county's median family income is \$105,329 (1st quartile) and the March 2020 unemployment rate was 3.7% (2nd quartile) ². The largest industry sectors that drive the local economy are manufacturing, retail trade, and administrative/waste management services.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Gavin SD. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Gavin SD changes, we will update our opinion at that time.

Credit Overview

Gavin SD has a favorable credit position. That said, its A1 rating is slightly beneath the median rating of Aa3 for school districts nationwide. The key credit factors include a very strong financial position, a small pension liability and a light debt burden. It also reflects a healthy wealth and income profile and a narrow tax base.

Finances: The district's financial position is robust and is a notable strength in relation to the assigned rating of A1. The cash balance as a percent of operating revenues (25.1%) is roughly equivalent to the US median. That said, this percentage declined from 2015 to 2019. Also, Gavin SD's fund balance as a percent of operating revenues (24.9%) is on par with other Moody's-rated school districts nationwide. State pension payments made on-behalf of school districts are recorded as a district revenue source and have been rising significantly in recent years. As a result, a district with no change in its absolute reserve position will experience a declining ratio of fund balance to revenues.

Debt and Pensions: Overall, the debt and pension liabilities of Gavin SD are manageable and are a credit strength in comparison to its A1 rating. The Moody's-adjusted net pension liability to operating revenues (0.45x) favorably is materially below the US median, and did not change from 2015 to 2019. Additionally, the net direct debt to full value (1.2%) is slightly under the US median. The low pension burden is primarily the result of payments made by the State of Illinois on behalf of school districts, which may not continue going forward.

Economy and Tax Base: The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to the tourism, health care, retail, oil and gas, and international trade sectors could suffer particularly severe impacts.

Overall, the district has a solid economy and tax base, which are aligned with the assigned rating of A1. The median family income is 102.6% of the US level. Also, Gavin SD's full value per capita (\$59,489) is slightly weaker than other Moody's-rated school districts nationwide. On the contrary, this number increased materially from 2015 to 2019. However, the total full value (\$496 million) is below the US median.

Management and Governance: Illinois school districts have an institutional framework score ³ of "A", which is moderate. School districts have moderate revenue-raising ability since they are subject to tax caps, but districts can seek voter approval for additional local property tax funding. Revenue predictability is disparate across the state: revenue for property tax dependent districts are very stable, while revenue for state aid dependent districts are less stable. Strong public sector unions somewhat limit districts' expenditure reduction ability. Still, districts have some cost-cutting ability given manageable fixed costs which are primarily debt service expenditures, as the state currently assumes most pension costs for most Illinois public school districts. Expenditures consist primarily of personnel costs, which are highly predictable.

Sector Trends - Illinois School Districts

Funding for Illinois public school districts has been increasing for several years per updates in Illinois' "evidence based" funding formula that took effect in fiscal 2018. The funding formula includes a hold-harmless provision so no districts receive reduced aid because of declining enrollment. Despite the state's increased budgetary strain related to the coronavirus pandemic, the governor has publicly stated that no school district will be penalized with reductions in state funding this year. However, beyond fiscal 2020, scheduled increases in funding for schools may be impacted by state financial pressures. If the state cannot support scheduled increases in its funding formula, it would primarily impact districts with low property tax wealth and districts with high proportions of low income students. Districts with high local property tax wealth would see little impact if the state retreats on school funding.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 1

Key Indicators ^{4.5} Gavin SD

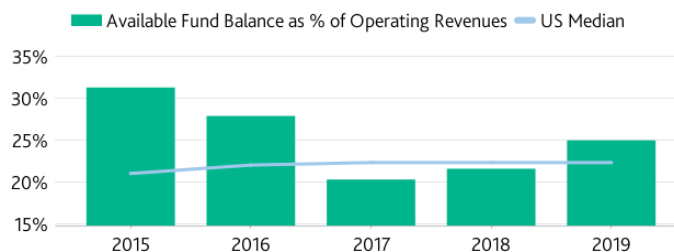
	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$446M	\$439M	\$470M	\$496M	\$496M	\$1,919M	Improved
Full Value Per Capita	\$52,629	\$51,123	\$56,573	\$59,489	\$59,489	\$87,328	Improved
Median Family Income (% of US Median)	104%	97%	102%	103%	103%	101%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	31.2%	27.9%	20.3%	21.6%	24.9%	22.3%	Weakened
Net Cash Balance as % of Operating Revenues	31.3%	27.9%	20.3%	21.7%	25.1%	27.2%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	1.0%	0.8%	0.3%	0.1%	1.2%	1.6%	Stable
Net Direct Debt / Operating Revenues	0.34x	0.26x	0.11x	0.04x	0.48x	0.73x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.9%	1.0%	1.2%	1.2%	1.1%	3.3%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.32x	0.35x	0.40x	0.44x	0.45x	1.48x	Stable

	2015	2016	2017	2018	2019	US Median
Debt and Financial Data						
Population	8,480	8,605	8,324	8,341	8,341	N/A
Available Fund Balance (\$000s)	\$3,996	\$3,686	\$2,854	\$2,868	\$3,115	\$9,391
Net Cash Balance (\$000s)	\$3,997	\$3,689	\$2,859	\$2,888	\$3,132	\$11,164
Operating Revenues (\$000s)	\$12,789	\$13,236	\$14,074	\$13,299	\$12,488	\$42,583
Net Direct Debt (\$000s)	\$4,311	\$3,463	\$1,490	\$495	\$5,980	\$29,872
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$4,147	\$4,592	\$5,645	\$5,796	\$5,638	\$62,410

Source: Moody's Investors Service

EXHIBIT 2

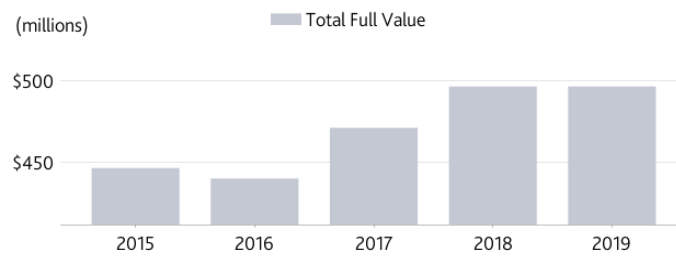
Available fund balance as a percent of operating revenues decreased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

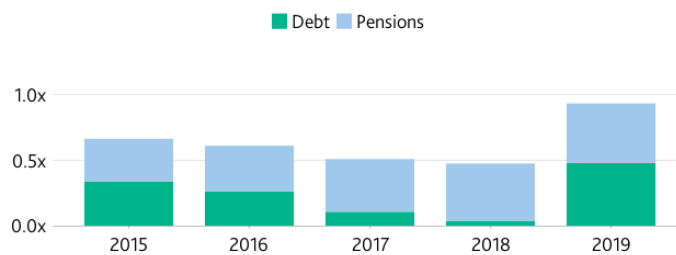
Full value of the property tax base increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - 5 The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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