Summary:

Lake County School District No. 70 (Libertyville), Illinois; General Obligation

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Credit Profile		
US$5.61 mil GO ltd tax debt certs ser 2019 due 01/01/2029		
Long Term Rating	AAA/Stable	New
Lake Cnty Sch Dist #70 Libertyville		
Long Term Rating	AAA/Stable	Affirmed
Lake Cnty Sch Dist #70 Libertyville GO ltd sch bnds		
Long Term Rating	AAA/Stable	Affirmed
Lake Cnty Sch Dist #70 Libertyville GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Lake County School District No. 70 (Libertyville), Ill.'s series 2019 limited-tax general obligation (GO) debt certificates. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the district's previously issued GO bonds, and its 'AAA' rating on the district's previously issued limited-tax GO debt certificates. The outlook on all ratings is stable.

The debt certificates are payable from general funds and such other sources of payment as are otherwise lawfully available, but without a dedicated debt service levy. We rate the certificates on par with the district's general creditworthiness, or equivalent to a GO rating, with no notching because we believe the district's ability to pay is closely tied to its operations, which is reflected in the GO bond rating. Management indicates it will use bond proceeds to fund renovations identified in the district's 10-year life safety plan.

The limited-tax GO bonds are payable from legally available funds and a debt service levy limited as to amount, but unlimited as to rate, according to the current debt service extension base. Because the debt service levy is unlimited as to rate, we rate the district's limited-tax GO debt according to our view of the district's general creditworthiness as reflected in our rating on the unlimited-tax GO bonds.

The district's GO bonds are eligible to be rated above the sovereign because we believe the district can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate and Government Ratings – Methodology and Assumptions," published Nov. 19, 2013, the district has a predominately locally derived revenue source. Intergovernmental sources, in the form of federal receipts, accounted for 1.4% of general fund revenues in fiscal 2018. The district also has independent taxing authority and independent treasury management from the federal government, and the U.S. has no history of negative sovereign intervention.

The district services a wealthy northern suburb of Chicago providing k-8 education. It has historically maintained relatively balanced operating results with occasional deficits due to the addition of new programing or addressing capital needs. The district's reserves levels have historically been very strong on a modified cash basis of accounting and S&P Global Ratings believes the district will continue to maintain very strong reserves. The district will use bond proceeds to address capital needs identified in its life safety capital plan and to replace an old electric heating system with a gas one. The building slated for heating system replacement has solar panels on its roof and with the reduced electrical costs, the district could sell excess electricity it generates.

The rating reflects our view of the district's:

- Participation in the deep and diverse Chicago metropolitan statistical area (MSA) economy;
- Very strong income levels and extremely strong market value per capita;
- Very strong reserves on a modified cash basis of accounting; and
- Low overall debt burden as a percentage of market value.

Economy

Lake County School District No. 70 (Libertyville) serves an estimated population of 18,937. The median household effective buying income in the district is 187% of the national average, and the per capita effective buying income in the district is 195% of the national average, both of which we consider very strong. At $180,288 per capita, the 2018 estimated market value totaling $3.4 billion is, in our opinion, extremely strong. Equalized assessed valuation (EAV) grew by a total of 12.8% since 2016 to $1.1 billion in 2018. About 4.0% of EAV comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

The district serves most of the village of Libertyville and areas of the villages of Mundelein and Green Oaks, about 37 miles north of downtown Chicago. Residents have access to a wide variety of jobs within the county and throughout the northern Chicago metropolitan area, and can commute to downtown Chicago by Metra commuter train.

Student enrollment for 2019 totaled 2,277. It decreased in each year from 2015 to 2019. Officials stated that the declines were caused by large graduating classes being replaced with smaller incoming class sizes. Officials also indicated that the current and projected incoming classes are much closer in size to the expected graduating classes and this should result in stable enrollment in the next few years.

Finances

The district's available cash reserve of $20.4 million (which consists of the combined educational and operations and maintenance funds, referred to as the general fund, as well as additional liquidity in the working cash fund) is very strong on a cash basis of accounting in our view, at 46.5% of general fund expenditures at fiscal year-end (June 30) 2018. Of that amount, $14.9 million (34.0% of expenditures) is in the general fund, and $5.5 million (12.6% of expenditures) is in the working cash fund. The district reported a surplus operating result of 3.7% of expenditures in 2018. It depends primarily on property taxes for general fund revenues (62.4%), followed by state aid (33.2%).

The district had budgeted for use of general fund reserves in 2018, mainly due to conservative budgeting practices. The $1.6 million surplus resulted from state aid being received in a timely manner under the new evidence-based funding formula. The fiscal 2019 budget call for a general fund deficit of approximately $266,000 but this is once again an overly conservative budget that officials expect to outperform. In 2018, the district transferred $3.8 million from its working cash fund for gymnasium and classroom additions. Following the projects being funded with the series 2019 bond proceeds, officials indicate there are no significant capital expenses that will be funded by reserves over the next few years.

Management

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

Management provides the board with a monthly budget and investment report. The district produces multiyear financial projections, which the board uses to guide decisions about the budget; it does not do any formal capital planning above what the state requires but it is working on putting together a 20-year plan for capital needs for each building. Although the district lacks a formal fund balance policy, management maintains a cash reserve target of 20% of expenditures. This target has been lowered from 25% due to the increased reliability of state funding. The district also has its own investment policy with monthly investment reports provided to the board. It does not have any debt policies that go above and beyond adhering to statutory debt limits.

Debt

As a percentage of market value, overall net debt is what we consider low, at 1.9%, and moderate on a per capita basis at $3,491. These debt figures include the series 2019 bonds and the district's applicable share of the overlapping alternate revenue bonds outstanding. With 60% of the district's direct debt scheduled to be retired within 10 years, amortization is fairly rapid. Debt service carrying charges were 5.8% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider low. With this additional debt, debt service carrying charges will remain low, we believe.

The district has no plans for issuing additional debt at this time.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $459,000 toward its pension obligations in fiscal 2018, or 0.8% of total governmental expenditures. In fiscal 2018, the district also paid $162,000, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 1.1% of total governmental fund expenditures in 2018.

The district participates in the Teachers' Retirement System (TRS) and Teacher Health Insurance Security Fund (THIS), and its pension plan for regular employees is administered by the Illinois Municipal Retirement Fund (IMRF). Although TRS is poorly funded at 41%, the state makes on-behalf payments to TRS and THIS, and it is responsible for most of the TRS net pension liability at this time. At June 30, 2017, the district's proportionate share of the TRS net pension liability was approximately $2.8 million using a 7.0% discount rate. The state's proportionate share of the TRS net pension liability applicable to the district was nearly $132 million. As of Dec. 31, 2017, the district's IMRF plan had a net pension liability of $713,000 using a 7.5% discount rate.

Outlook

The stable outlook reflects our expectation that the district will take the steps it believes necessary to maintain long-term structural balance and strong cash reserves consistent with the 'AAA' rating. The outlook further reflects our view of the district's participation in the diverse Chicago MSA economy.

Downside scenario

We do not expect to change the rating within the two-year outlook horizon, but if the district were to experience a substantial deterioration in cash reserves, we could lower the rating.