STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

DuPage & Cook Counties Township High School District No. 86 (Hinsdale), Illinois; General Obligation

Primary Credit Analyst:
John A Kenward, Chicago (1) 312-233-7003; john.kenward@standardandpoors.com

Secondary Contact:
David H Smith, Chicago (312) 233-7029; david.smith@standardandpoors.com

Table Of Contents

Summary:

DuPage & Cook Counties Township High School District No. 86 (Hinsdale), Illinois; General Obligation

Credit Profile		
Du Page & Cook Cntys Twp High Sch Dist #86 Hinsdale		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'AAA' long-term rating on DuPage & Cook Counties Township High School District No. 86 (Hinsdale), Ill.'s general obligation (GO) bonds. The outlook is stable.

The rating reflects our assessment of the following credit factors for the district:

- Participation in the Chicago metropolitan area's broad and diverse economy;
- Very strong income level and extremely strong market value per capita indicators;
- Very strong operating reserves, supported by good financial management practices; and
- Low overall net debt burden as a percentage of market value.

The limited-tax GO bonds are secured by a tax levy unlimited as to rate but limited as to amount, with the amount based on the size of the district's debt service extension base (DSEB). The district structured its new and outstanding limited-tax debt so as not to exceed its capacity to use a direct-debt levy.

DuPage & Cook Counties Township High School District No. 86 operates two high school campuses in southeastern DuPage County and southwestern Cook County, approximately 20 miles west of downtown Chicago. The 29 square-mile district serves about 74,600 people residing in Hinsdale as well as large portions of Burr Ridge, Clarendon Hills, and other communities. Residents benefit from a wide range of employment opportunities in the western suburbs and are connected to downtown Chicago via Metra commuter train. Median household effective buying income is strong, in our opinion, at 159% of the nation's level, while per capita EBI is very strong at 213%.

Enrollment has decreased 3% since 2009-2010, to 4,445 in 2014-2015. Management projects that enrollment will be stable over the next few years. We do not believe that declining enrollment is a negative issue for the district since the district receives little general state aid, which amounted to only $1.09 million, or 1.3% of educational fund revenue in fiscal 2014 (June 30). Because federal aid for fiscal 2014 also amounted to only $1.09 million of educational fund revenue, it is our view that the rating on the district's debt can exceed the U.S. sovereign rating.

The district's equalized assessed value (AV) decreased 24% from 2009 to 2014, to $4.75 billion. Market value is currently $14.26 billion, which in our view is an extremely strong $191,000 per capita. The tax base is very diverse, with the 10 leading taxpayers accounting for only about 3% of AV.

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. The district reported a $1.3 million surplus for fiscal 2013 and a $1.6 million surplus for fiscal 2014 for the combined educational and operations and maintenance (O&M) funds). As result, the combined fund balance for the two funds grew to $46.65 million, which is a very strong 50% of expenditures. The district holds additional reserves in the working cash fund, which reported an unassigned fund balance of $7.43 million at the end of fiscal 2014, which is another 8% of expenditures for the combined educational and O&M funds. For fiscal 2015, management projects that the district will report break-even operations for the educational fund, an O&M surplus of about $1.3 million, and a working cash fund transfer of $500,000 to a pension fund. Although the district recently reported that $1.2 million of its cash assets invested in a multigovernment investment fund are currently frozen due to the fund's investment in a transaction that turned out to be fraudulent, management reports that the district expects to eventually recover most of that amount.

Standard & Poor's considers the district's financial management practices "good" under its Financial Management Assessment (FMA). An FMA of "good" indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. Management prepares its budgets with the help of five-year financial projections and a three-year capital facilities plan. Although the district does not have a formal fund balance policy, management's target is to maintain operating cash reserves equal to at least three months of expenditures.

In our opinion, the overall net debt burden is low at 1.3% of market value and moderate at $2,450 per capita. Debt service currently makes up a low 2.7% of the total government fund expenditures. Amortization is a little above average, with 55% of debt scheduled to mature within 10 years. Management does not have debt plans at this time.

The district's teachers are covered by the state-sponsored Teachers Retirement System (TRS), to which the state makes annual contributions on behalf of the district. The district also makes supplemental payments to TRS, contributes to the Teachers' Health Insurance System, and subsidizes health care benefits for nonteaching employees. Nonteaching staff members are covered by the multiple-employer Illinois Municipal Retirement Fund, to which the district pays its full annual required contribution each year. The district's pension and retiree health care expenses totaled $2.4 million in fiscal 2014, which amounted to only 2.4% of total governmental funds expenditures.

Outlook

The stable outlook reflects Standard & Poor's expectation that that the rating will not change in the next two years because we believe the district will continue to maintain a very strong fund balance position with the help of its good financial management practices. The district's participation in the diverse Chicago metropolitan area economy supports the outlook. Although we consider it unlikely, we may lower the rating if the district falls into a multiyear fiscal imbalance that results in a substantial drop in reserves.

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
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.