**To:** Dr. Charles Johns
Board of Education

**From:** Dr. R.J. Gravel

**Date:** Monday, August 24, 2020

**Re:** Credit Rating for Series 2020 General Obligation Refunding School Bonds

This spring, we worked closely with Mrs. Elizabeth Hennessy of Raymond James to prepare for a bond rating presentation, as part of our upcoming debt issuance. The purpose of a rating presentation is to share information about the school district and the planned debt issuance. Using the information provided, an agency issues a rating representing the creditworthiness of the debt and the likelihood of repayment.

On Wednesday, August 5, 2020, Dr. Johns, Dr. Ptak, Ms. Tarver, Mrs. Hennessy, and I presented to analysts from S&P Global Ratings as part of an online teleconference. The presentation lasted approximately 90 minutes, and provided an opportunity for the rating agency's analysts to learn about:

- Our school district's boundaries, the consistent residential and economic development of Glenview and Northbrook, enrollment trends and the accomplishments of our students and staff;
- The leadership structure of the district, and management philosophy leveraging data and defined formulas to make informed decisions ensuring generational equity in educational experiences for our residents;
- The implementation of extensive budget policies and practices, a five-year, rolling, long-term financial plan, and a 10-year capital plan that the Board of Education reviews annually;
- The design of the Learning and Operational Plan for the 2020-21 school year, and the associated financial plan to address the impact of COVID-19 operationally and within the budget;
- The commitment of the Board of Education to maintain a sufficient fund balance, and efforts to implement efficiencies through collective bargaining, outsourcing, and shared services; and
- Our current debt profile and proposed debt structure for the refunding of existing bonds.

With great enthusiasm, I share with the Board of Education that our school district received the highest bond rating possible from S&P Global Ratings:

> AAA - The obligor's capacity to meet its financial commitments on the obligation is extremely strong.
>
> Strong - The district's practices are strong, well embedded, and likely sustainable.

As documented in the attached rating report provided by S&P, these ratings represent the school district's long-term commitment to consistent and effective budgetary practices. The rating agency commented favorably regarding the strength of the school district's management team and its ability to communicate the school district's financial condition. As a result of this rating, our school district was positioned to receive the most competitive rates for the Series 2020 bonds.

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S&P Global
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**Summary:**

# Cook County Township High School District No. 225 (Glenbrook), Illinois; General Obligation

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**Summary:**

# Cook County Township High School District No. 225 (Glenbrook), Illinois; General Obligation

| Credit Profile | | |
|---|---|---|
| US$9.185 mil GO rfdg sch bnds ser 2020 due 12/01/2027 | | |
| *Long Term Rating* | AAA/Stable | New |
| Cook Cnty Twp High Sch Dist #225 Northfield GO ltd tax cap apprec rfdg bnds ser 2002B due 12/01/2011-2021 | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| Cook Cnty Twp High Sch Dist #225 Northfield GO ltd tax sch bnds ser 2016B due 12/01/2027 | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| Cook Cnty Twp High Sch Dist #225 Northfield GO rfdg sch bnds ser 2016A due 12/01/2024 | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

## Rating Action

S&P Global Ratings assigned its 'AAA' rating to Cook County Township High School District (HSD) No. 225 (Northfield-Glenbrook), Ill.'s $9.185 million series 2020 general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the district's GO and limited-tax GO bonds outstanding. The outlook is stable.

Bond proceeds from the 2020 issue will refund the 2010 GO school bonds for interest savings. An ad valorem tax pledge without limitation as to rate or amount secures the GO bonds. The limited-tax bonds are secured by the district's debt service extension base (DSEB) with an ad valorem tax levy unlimited as to rate but limited as to amount. Pursuant to the application of our "Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019), we rate the GO limited-tax bonds at the same level as our view of the district's general creditworthiness, as reflected in our rating on its unlimited-tax GO bonds, because we do not consider there to be significant limitations on the fungibility of resources supporting debt service that would warrant a lower rating.

We rate the district higher than the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, due to its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2019, local taxes generated 84% of general fund receipts, demonstrating a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013.)

### Credit overview

Although the scope of economic and financial challenges posed by COVID-19 remains to be seen, given Glenbrook HSD's extremely high reserve levels and lack of reliance on state revenue, we believe the district is well positioned to navigate the possible impact of the pandemic in the short-to-medium term. Glenbrook HSD embodies many of the typical characteristics of a 'AAA' rated issuer, including a diverse economy that is independently strong, but also part of a broad and diverse metropolitan statistical area (MSA); consistently stable financial operating results with no discernible budgetary pressures (despite the current recession), as the district relies primarily on residential and property taxes; and a sophisticated and knowledgeable management team. Generally, our rating outlook time frame is up to two years. Given the current uncertainty around the pandemic, our view of the credit risks to the district are centered on the more immediate budget effects in 2020. (For additional information, see "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect.) Although the Illinois teachers' pension plan is very poorly funded, it is a state liability; therefore, it does not directly affect the district's credit quality. We will continue to monitor the effects of the pandemic on the HSD's revenues and expenses.

Other rating factors include the district's:

- Participation in the Chicago MSA's deep and diverse economy, coupled with extremely strong wealth and very strong income levels;
- Very strong reserve levels;
- Strong management practices and techniques; and
- Manageable debt burden.

### Environmental, social, and governance factors

The rating also incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider social risk factors. Although the scope of economic and financial challenges posed by the pandemic remains unknown, we believe a prolonged disruption could weaken the HSD's local economy. Absent the implications of COVID-19, we consider the HSD's social risks to be in line with those of the sector. We also view governance and environmental risks as being in line with our view of the sector as a whole.

## Stable Outlook

### Downside scenario

We could lower the rating if the district were to draw down reserves to levels we no longer consider consistent with the current rating.

## Credit Opinion

Desirable residential community, with substantial employment opportunities within the district, provides a stable economy

The district is 25 miles northwest of downtown Chicago, between interstates 294 and 94. Two commuter rail stations and an Amtrak stop service the area. Residents have access to jobs in Chicago and locally. Although the district has a thriving residential community, it also is home to several major corporations, including Allstate Corp. (8,750 employees), Walgreen Co. (9,000 employees), Baxter International Inc. (1,700 employees), and UL LLC (1,700 employees), among other pharmaceutical, food product research (Kraft Heinz Foods), and insurance companies.

Management reports that there is continued commercial and residential growth in the district. A large tax increment financing (TIF) district, known as The Glen, is located within the district, but the district is receiving "make whole" payments through the expiration of the TIF in 2022. The district will receive $9.6 million in fiscal 2020 from The Glen.

Management reports a large amount of residential and commercial construction in the district and expects to see continued growth in the equalized assessed valuation (EAV). The district is subject to the property tax extension limitation law, which caps annual operating tax levy increases at the lesser of 5% or the rate of inflation, except with regard to new construction.

Enrollment totaled 5,267 students in 2020. Projections show some declines, with an estimated 5,194 students in 2020; this will not adversely affect the HSD's finances. The district operates two high schools, and expects neither will exceed its maximum capacity.

### Fiscal 2019 and 2020 results finish strong with no planned use of reserves in 2021

When including restricted fund balance in the operations and maintenance fund, which we generally view as available, the working cash and educational funds, the HSD fund balance was $81.4 million (or 69% of expenditures) at fiscal 2019 yearend. Glenbrook is estimating surplus for the most recently completely fiscal year (2020). The district depends primarily on property taxes for general fund revenue (84%), followed by state aid (3.5%), excluding on behalf revenues from the state for teachers' pension contributions.

The fiscal 2021 tentative budget calls for balanced operations; this includes $500,000 for COVID-19-related expenditures and assumes a phase in of in-person classes, possibly by October. The district is consulting with teachers, parents, and an infectious disease doctor while phasing in the opening of the buildings; the district is performing its own contact tracing, which management believes can perform more quickly than the county health department. If unexpected expenses arise, officials indicate they will make offsetting expenditure cuts and will not draw down the fund balance for operational expenses.

The district's largest taxpayer, Allstate, which represents 1.5% of the total EAV, settled its tax appeals on its assessed valuations for levy years 2004 through 2009. The district had completed payments to Allstate, totaling $6 million. The district has reached agreements for Allstate's assessed valuations through 2021.

### Management policies will help identify and prepare for future financial stress

We consider Glenbrook's management practices strong under our Financial Management Assessment (FMA) methodology. An FMA of strong indicates that practices are strong, well embedded, and likely sustainable.

The district has extensive budgeting policies and practices that include a year-round schedule for developing the annual budget. Management uses historical and outside information to project revenue and expenditures assumptions. Glenbrook provides the board with monthly budget-to-actual reports and can amend the budget as necessary. It has a five-year, rolling, long-term financial plan that the board reviews and updates annually. The district's extensive 10-year capital plan has very detailed projects, includes funding sources; the board also reviews and updates this annually. Glenbrook has an investment policy and updates the board quarterly on holdings and earnings. The debt management policy restricts debt instruments and outlines procedures, but does not establish a debt limit lower than the state statutory limit. The district's reserve policy calls for 33% of expenditures; this amount was established to handle cash flow needs, volatility, and new programs that arise midyear.

### Debt

We consider Glenbrook's overall net debt to be moderate as a percentage of market value, at 3.4%, but high on a per capita basis, at $6,284. With 100% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. Despite this, debt service carrying charges were only 5.5% of total governmental fund expenditures excluding capital outlay in fiscal 2019, which we consider low.

The district does not have any privately placed or direct-purchase debt. It does not have additional debt planned in the next two years.

### Pension payments are not an immediate financial pressure

The district participates in the Illinois Teachers' Retirement System (TRS) and the Illinois Teachers' Health Insurance Security Fund. The state makes most required contributions to these pension plans on the district's behalf. The Illinois Municipal Retirement Fund (IMRF) administers the district's pension plan for regular employees, and the district contributes 100% of its annual pension cost.

The TRS is poorly funded, at 40%, but this is paid by the state and is not a district liability. There is a $6.8 million liability associated with the district. If the state were to shift a share of its TRS liability to school districts without an adequate offsetting revenue stream, the district's budget could face pressure due to weak funding.

The IMRF is well funded at 87.8%; it is funded from district funds, and the district has a liability of $16.95 million. District IMRF contributions equaled 97% of minimum funding progress in fiscal 2018 and the 7.25% discount rate is above average. While some IMRF plan assumptions are weaker than our guidelines, contributions meet minimum funding progress, which should be sufficient to reduce net pension liabilities during the next few fiscal years.

The district pays postemployment health care benefits on a pay-as-you-go basis.

**Cook County Township High School District No. 225 (Glenbrook), Ill. -- Financial And Operating Statistics**

| | Characterization | Most recent | Historical information | | |
|---|---|---|---|---|---|
| | | | 2019 | 2018 | 2017 |
| **Economic indicators** | | | | | |
| Population | | 88,263 | 85,747 | 86,417 | 87,283 |
| Median household EBI % of U.S. | Very strong | | | 162 | 153 |
| Per capita EBI % of U.S. | Very strong | | | 189 | 177 |
| MV per capita ($) | Extremely strong | 223,299 | 186,079 | 188,742 | 180,950 |
| Top 10 taxpayers as % of AV | Very diverse | 5.3 | 6.1 | 17.3 | 7.1 |
| **Financial indicators** | | | | | |
| Total adjusted available fund balance ($000) | | | 81,354 | 78,227 | 79,194 |
| Total adjusted available fund balance as % of operating expenditures | Very strong | | 69.8 | 70.5 | 71.7 |
| Governmental funds cash as % of governmental fund expenditures | | | 53.2 | 57.1 | 56.1 |
| General fund operating result as % of general fund operating expenditures | | | 1.26 | (0.05) | 3.11 |

| Cook County Township High School District No. 225 (Glenbrook), Ill. -- Financial And Operating Statistics (cont.) | | | | | |
|---|---|---|---|---|---|
| FMA | Strong | | | | |
| Enrollment | | | 5,198 | 5,075 | 5,059 |
| **Debt and long-term liabilities** | | | | | |
| Overall net debt as % of MV | Low | 0.4 | 3.9 | 3.1 | 2.8 |
| DS as % of governmental funds expenditures | Low | | 5.5 | 5.8 | 5.8 |
| Required pension contribution ($000) | | | 1,716 | 1,841 | 1,834 |
| OPEB contribution ($000) | | | 568 | 520 | |
| Required pension plus OPEB contribution as % of governmental fund expenditures | | | 1.2 | 1.4 | 1.0 |

EBI--Effective buying income. MV--Market value. AV--Assessed value. FMA--Financial Management Assessment. DS--Debt service. OPEB--Other postemployment benefits.

## Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020