To: Dr. Mike Riggle
Board of Education

From: Dr. R.J. Gravel

Date: Monday, April 9, 2018

Re: Credit Rating for Series 2018 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 during the presentation, and a supplemental report provided in advance of the meeting, an agency issues a rating that represents the creditworthiness of the debt, and the likelihood of repayment.

On Thursday, February 22, 2018, Mr. Doughty, Dr. Riggle, Dr. Ptak, Ms. Tarver, Mrs. Hennessy, and I presented to analysts from Moody's Investors Services as part of an online teleconference. The presentation lasted approximately 60 minutes, and provided an opportunity for the rating agency's analysts to learn about:

- Our school district's boundaries, the economic development of Glenview and Northbrook, student 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 ongoing commitment of the Board of Education to maintain fund balances in excess of the District's stated policy, as well as annual efforts to implement operational efficiencies through collective bargaining, outsourcing, and shared services;
- The District's financial position, including our historical revenue and expenditure trends, fund balances projections, and our approach to building and managing an annual budget that can meet the challenges of potential legislation;
- Our current debt profile and proposed debt structure for the refunding of existing bonds.

It is with great enthusiasm that I share with the Board of Education that our school district received the highest bond rating possible from Moody's Investors Services:

> Aaa - Obligations rated Aaa are judged to be of the highest quality, subject ot the lowest level of credit risk.
>
> Strong - The district's fiscal management is strong as demonstrated by the long-term financial forecasting and capital planning efforts, and a strong reserve position.

As documented in the attached rating report provided by Moody's, these ratings are representative of our school district's ongoing and long term commitment to financial stability and the implementation of consistent and effective budgetary practices. The rating agency commented favorably regarding our budgetary methodology that utilizes structured formulas, and year-long collaborative processes for identify future expenditures. As a result of this rating, our school district was positioned to receive the most competitive rates available for the Series 2018 bonds.

CREDIT OPINION
26 February 2018

Rate this Research

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Cook Co. H.S.D. 225 (Northfield Township), IL

Update to credit analysis

Summary

Cook County High School District No. 225 (Northfield Township), IL (Aaa stable) benefits from a large and affluent tax base that is growing even though it remains below is prerecession peak. Well managed finances coupled with long-term financial forecasting and long-term capital planning support a very stable and strong reserve position. The district finances much of its capital needs on a pay-go basis, keeping its debt burden modest. The district's pension burden is also modest, though this reflects the state retaining primary responsibility to fund teacher pensions. The teacher pension plan is in weak shape and there is risk the state could shift a greater funding burden to individual districts. The district's debt consists of general obligation unlimited tax (GOULT) debt (Aaa stable), general obligation limited tax (GOLT) debt service extension base (DSEB) debt (Aaa stable) and lease certificates (Aaa stable).

Credit strengths

- Very large and affluent tax base located north of Chicago (Ba1 negative)
- Strong financial position with limited state exposure
- Modest debt burden
- Strong fiscal management

Credit challenges

- Tax base remains well below its prerecession peak
- Pension burden likely to grow as the district assumes all costs associated with newly hired teachers

Rating outlook

The stable outlook reflects our expectation that the district's large and affluent tax base, healthy financial profile and limited state exposure will support the current rating going forward.

Factors that could lead to an upgrade

- Not applicable

Factors that could lead to a downgrade

- Resumed tax base depreciation or weakening of socioeconomic indices
- Material reduction in fund balance or liquidity
- Significant growth in the district's debt or pension burdens

Key indicators

Exhibit 1

Cook Co. H.S.D. 225 (Northfield Township), IL	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$15,126,689	$13,462,196	$13,638,161	$13,185,042	$15,809,707
Population	86,150	86,734	87,149	87,149	87,149
Full Value Per Capita	$175,585	$155,212	$156,492	$151,293	$181,410
Median Family Income (% of US Median)	184.7%	187.5%	187.2%	187.2%	187.2%
Finances					
Operating Revenue ($000)	$126,497	$135,309	$147,453	$154,046	$177,205
Fund Balance ($000)	$77,900	$80,804	$81,590	$81,600	$86,299
Cash Balance ($000)	$79,658	$83,550	$84,329	$83,374	$87,509
Fund Balance as a % of Revenues	61.6%	59.7%	55.3%	53.0%	48.7%
Cash Balance as a % of Revenues	63.0%	61.7%	57.2%	54.1%	49.4%
Debt/Pensions					
Net Direct Debt ($000)	$89,103	$85,695	$81,992	$87,295	$90,099
3-Year Average of Moody's ANPL ($000)	$41,328	$42,553	$41,924	$45,082	$52,780
Net Direct Debt / Operating Revenues (x)	0.7x	0.6x	0.6x	0.6x	0.5x
Net Direct Debt / Full Value (%)	0.6%	0.6%	0.6%	0.7%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.3x	0.3x	0.3x	0.3x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.3%	0.3%	0.3%	0.3%

Source: Moody's Investors Service, US Census Bureau, the district's audited financial statements

Profile

The high school district primarily serves students living in the Villages of Glenview (Aaa stable) and Northbrook (Aaa negative). District enrollment exceeds 5,000 students.

Detailed credit considerations

Economy and tax base: large and affluent tax base

The district's tax base will remain a credit strength given its large full valuation and above average resident income supported by close connection with the metro Chicago economy. At $16 billion, the district's tax base remains well above the US median. The district's tax base is growing but remains more than 20% below its precession peak of $20 billion. Management expects continued growth in the base given development activity within the villages of Glenview and Northbrook. Additionally, a large area designated as a tax increment financing (TIF) district will come on the tax roll in 2022 and is expected to add an estimated $400 million in valuation. Tax base concentration is low as the ten largest taxpayers accounted for less than 7% of the district's most recent equalized assessed valuation (EAV). Median family income within the district is 187% of the national median. District enrollment exceeds 5,000 students.

Financial operations and reserves: strong and stable reserves

The district's financial profile will remain sound given ample reserves and prudent management. The district closed fiscal 2017 with a combined available fund balance of $86 million, equal to nearly 49% of revenue across the core operating funds - Education, Operations and Maintenance, Debt Service, Transportation, IMRF and Working Cash funds. The district remains operationally balanced and regularly transfers operating funds to the capital fund to finance capital projects.

Management notes that fiscal 2018 is tracking toward balanced operations and expects to add $12 million to fund balance due to the number of residents that prepaid property taxes in advance of the recent tax reform. The district anticipates the increase will be balanced by a subsequent decrease in taxes in fiscal 2019 as the prepayments are accounted for.

LIQUIDITY

The district maintains a healthy unrestricted cash position across its operating funds. At the close of fiscal 2017, operating net cash totaled $88 million or 49% of revenue.

Debt and pensions: modest leverage related to long-term debt and pension liabilities

The district's debt burden will remain low given limited plans to borrow over the near term. Inclusive of Series 2018 general obligation refunding bonds, the district's debt burden is a modest 0.5% of full valuation and 0.5x fiscal 2017 operating revenue.

The Moody's three-year average adjusted net pension liability (ANPL) for the district, our measure of a local government's pension burden that uses a market-based interest rate to value accrued liabilities, is $58 million or a low 0.3% of full value and 0.3x fiscal 2017 operating revenue. The modest liability reflects the state currently having primary responsibility to fund teacher pensions. Because of the state funding responsibility, debt service comprises nearly all of the district's fixed costs, which totaled 9% of fiscal 2017 operating revenue.

DEBT STRUCTURE

The district's debt is fixed rate and long term, all of which will be retired by 2027. Some outstanding debt is repaid with a levy against the district's debt service extensions base (DSEB). The district’s DSEB is $2.3 million and increases each year by the change in the consumer price index (CPI).

DEBT-RELATED DERIVATIVES

The district has no derivative exposure.

PENSIONS AND OPEB

The state has primary responsibility for funding teacher pensions through payments made on behalf of school districts. District teachers participate in the Teachers Retirement System (TRS) of Illinois, a multi-employer, cost-sharing defined benefit pension plan. Nonteaching district employees participate in the Illinois Municipal Retirement Fund (IMRF), an agent multi-employer plan. The state's fiscal 2017 contribution to TRS was just 69% of the amount needed for the plan to tread water.[1] Based on current funding practices, we expect unfunded liabilities of TRS on both a reported and Moody's-adjusted basis to grow, necessitating further growth in state contributions.

In July 2017, the state passed legislation to shift responsibility for new employees’ pensions to schools districts in order to provide itself with budgetary relief under its statutory pension funding approach. While limited for now, the impact of this change will increase as employees hired after the change grows to comprise a greater portion of district staff. Districts are responsible for the entire accrued liability associated with employees hired once TRS implements the Tier 3 plan, meaning they must backfill any unfunded liabilities associated with these employees that in the future if pension assets do not perform as projected. Unless it acts to shift costs further, the State of Illinois retains responsibility for the bulk of pension costs associated with employees hired previously

Management and governance: moderate institutional framework; low dependence on state aid

Illinois school districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. 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, as the state currently assumes most pension costs. Expenditures consist primarily of personnel costs, which are highly predictable.

Property taxes make up 61% of the district's operating revenue. The district received only 3% of its fiscal 2017 operating revenue from state operating aid. Additional exposure to the state comes from on-behalf pension payments, which comprise 27% of the district's fiscal 2017 revenue. The district is subject to the Property Tax Extension Limitation Law (PTELL), under which the district's operating property tax levies can grow up to the lesser of 5% or growth in the CPI, plus new construction. The district's management team is strong as demonstrated by maintenance of ample reserves and a healthy operating history. The district follows five-year financial forecasting and a ten-year capital plan. The district has also built into teacher contracts reopeners based on state legislative changes such as a property tax freeze or a pension cost shift.

Endnotes

1 Our "tread water" indicator measures the annual government contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year. A pension plan that receives an employer contribution equal to tread water will end the year with an unchanged net pension liability relative to the beginning of the year if all plan assumptions hold. Net liabilities may decrease or increase in a given year due to factors other than contributions, such as investment performance that exceeds or falls short of a plan's assumed rate of return. Still, higher contributions will always reduce unfunded liabilities faster, or will allow unfunded liabilities to grow more slowly.

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