MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Cook County CCSD 15 (Palatine), IL

Update to credit analysis

Summary

Cook County C.C.S.D 15 (Palatine), IL's (Aa2) credit profile benefits from a large tax base located in Cook County (A2 positive) that supports resident incomes that are above the national median and value per capita that is solid but lags similarly rated peers. Although the enrollment trend is negative because of changing demographics, it is not a direct driver of revenue under the state's evidence based funding formula. Financial operations are well-managed, with strong reserve and liquidity and a low reliance on the State of Illinois (Baa1 stable) for operating revenue. The district's debt burden is modest and even after an upcoming issuance that will double outstanding debt, long-term leverage will remain below average for the rating category. Leverage and fixed costs are low due in part to state support for contributions to an underfunded teacher retirement system.

On December 23, we assigned a Aa2 rating to the district's upcoming sale of general obligation unlimited tax (GOULT) bonds. Concurrently, we affirmed the district's issuer rating and outstanding general obligation limited tax (GOLT) rating at Aa2.

Credit strengths

» Large tax base located outside Chicago (Baa3 stable)

» Strong financial position with minimal reliance on state aid for operational revenue

» Below average long-term leverage and moderate fixed costs

Credit challenges

» While solid, full value per capita lags similarly rated peers

» Contingent risk associated with reliance on state support for pension contributions to an underfunded statewide teachers' pension plan

Rating outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt.

Factors that could lead to an upgrade

» Improved enrollment trend

» Growth in reserves and liquidity

» Maintenance of manageable leverage burden

Factors that could lead to a downgrade

» Narrowing of district reserves and liquidity

» Significant growth in the district's debt or pension burden

Key indicators

Exhibit 1

Cook County C.C.S.D. 15 (Palatine), IL

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income	132.3%	129.2%	N/A	N/A	112.2%
Full value ($000)	$10,882,911	$11,700,032	$12,321,005	$12,214,035	$3,864,784
Population	118,386	118,033	$103,480	N/A	31,619
Full value per capita	$91,927	$99,125	$99,107	$103,480	$115,171
Enrollment	12,349	11,912	10,900	10,518	4,288
Enrollment trend	-0.8%	-1.5%	-4.2%	-5.2%	0.1%
Financial performance					
Operating revenue ($000)	$202,044	$205,567	$211,375	$234,423	$71,385
Available fund balance ($000)	$63,532	$63,326	$63,968	$73,733	$18,076
Net cash ($000)	$71,762	$70,906	$76,171	$83,689	$21,642
Available fund balance ratio	31.4%	30.8%	30.3%	31.5%	26.8%
Net cash ratio	35.5%	34.5%	36.0%	35.7%	31.5%
Leverage					
Debt ($000)	$40,234	$39,038	$48,733	$43,985	$51,433
ANPL ($000)	$84,485	$96,131	$100,690	$79,565	$111,819
OPEB ($000)	$90,175	$96,212	$95,153	$68,766	$10,587
Long-term liabilities ratio	106.4%	112.6%	115.7%	82.0%	317.0%
Implied debt service ($000)	$3,264	$2,933	$2,796	$3,418	$3,485
Pension tread water ($000)	$1,857	$3,220	$2,445	N/A	$2,924
OPEB contributions ($000)	$1,336	$1,380	$1,411	$1,195	$368
Fixed-costs ratio	3.2%	3.7%	3.1%	3.0%	11.5%

For definitions of the metrics in the table above please refer to the US K-12 Public School Districts Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published K12 Median Report.
Sources: US Census Bureau, Cook County C.C.S.D. 15 (Palatine), IL's financial statements and Moody's Investors Service

Profile

Located in Cook County, approximately 25 miles northwest of Chicago, the district serves a majority of the Village of Palatine (Aa2), the City of Rolling Meadows and small portions of five other communities. The district provides K-8 education to approximately 11,000 students in a community of about 118,000 residents.

Detailed credit considerations

Economy: large tax base in the Chicago metro area

The district benefits from a large tax base located within the Chicago metro area, affording residents ample employment opportunities across the diverse regional economy. The $12.2 billion base is primarily residential (75%) with a considerable commercial presence (19%). The tax base has grown steadily in recent years, averaging 3% annual growth over the last five years, though remains below its pre-recession peak from over a decade ago. Resident income levels are 130% of the nation and property wealth as measured by full value per capita is solid at $103,000, but lags Aa rated school districts nationally that have a median of $115,000.

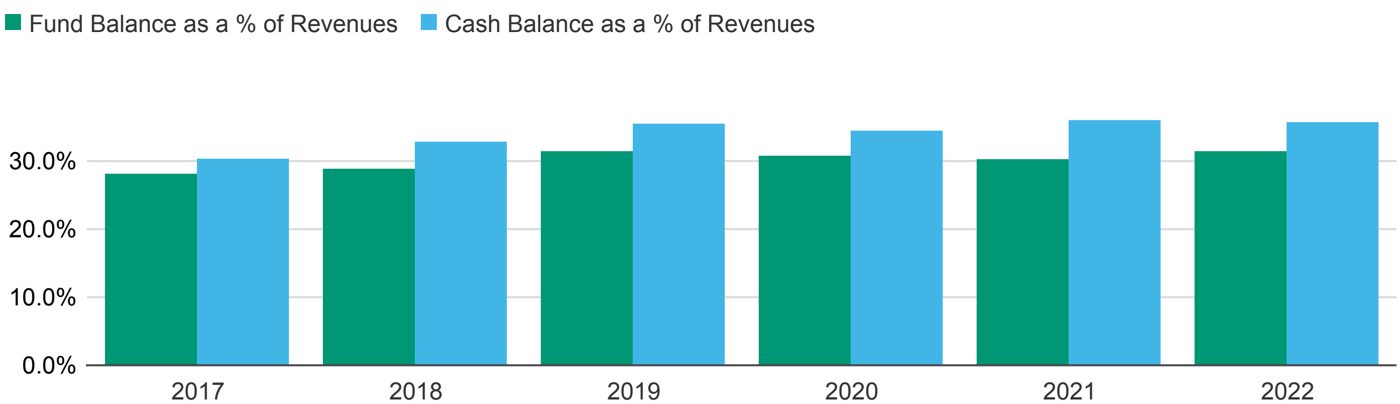
Enrollment has declined by about 5% over the last three years and management is budgeting for additional losses over the next two to five years. However, enrollment is not a revenue driver under the state's evidence based funding formula and declining enrollment does not impact state aid. Additionally, management reports being at or above classroom capacity at certain facilities. The declining enrollment trend combined with a facility update plan the district is in the process of implementing is likely to rightsize capacity going forward, but does represent a fundamental credit weakness should the highly negative trend continue.

Financial operations: strong and stable reserve position

The district's financial position is likely to remain strong because of stable operating revenue with limited exposure to state operating aid. The fiscal 2023 (June 30 year end) budget includes a $5 million draw in reserves from the transportation fund to support capital which will not materially impact the district's strong reserve position. Fiscal 2022 closed with a $9 million operating surplus because of conservative budget estimates and expenditure of over $13 million in federal stimulus aid used on salaries, purchased services, capital equipment and other supplies. Available operating fund balance for the year totaled $74 million, representing a strong 32% of revenue across the general, debt service, transportation, pension, working cash and debt service funds.

Exhibit 2

Reserves and cash balance are stable year to year



Source: Moody's Investors Service

The district's primary source of revenue is property taxes which typically accounts for about 60% of operating revenue. State-aid comprises an additional 30% including on-behalf pension payments. 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 revenue, though the district has maintained reserves year over year. State aid for general operations is closer to 12% of revenue not including the pension payments. Under Illinois' evidence based funding formula, the district is Tier 2 which means it is likely to receive modest increases in state funding as new revenue becomes available. In fiscal 2023, the district received approximately $325,000 in new state aid.

Liquidity

Like fund balance, the district's cash position is strong. At the close of fiscal 2021, net cash was $76 million, representing 36% of operating revenue.

Leverage: long-term leverage will remain low compared to national peers

The district's long-term liabilities are below average and even with an upcoming issuance fixed costs will remain low. The district is in the process of selling approximately $44 million in GOULT bonds, exercising about half of the bonding authority approved by district voters in a November 2022 referendum. The sale will support the initial phases of a districtwide master facility plan to upgrade and build additions at certain facilities and implement all day kindergarten. The full cost of the program is $186 million to be funded between fiscal 2023 and 2027. Identified financing includes $25 million in pay-go from the district's O&M budget, $93 million issued as GOULT bonds, $32 million issued as GOLT bonds and $36 million in debt certificates.

The upcoming GOULT sale will double the district's outstanding debt and increase total leverage inclusive of debt, pensions and other post employment benefits (OPEB) to 100% of fiscal 2022 revenue, up from 82%. Following completion of the facilities update plan, total leverage will be closer to 135% of fiscal 2022 revenue, though will likely be lower because of modest growth in revenue over the five years in addition to the new levy to support GOULT debt. Leverage remains low relative to similarly rated peers which have a median ratio that is over 300%. Adjusted fixed costs are also below average at 3.5% and will not increase materially with the new debt because the district will levy for debt service.

Legal security

The district's GOULT bonds are backed by its pledge and authorization to levy a property tax unlimited as to rate or amount to pay debt service.

Debt service on the district's GOLT debt is backed by the district's pledge of all available funds and supported by a dedicated property tax levy that is unlimited as to rate, but limited in amount by the district's debt service extension base which is currently $6.4 million.

Debt structure

All of the district's debt is fixed rate. Amortization of debt is slightly below average with about 60% of principal retired in 10 years.

Debt-related derivatives

The district is not a party to any derivative agreements.

Pensions and OPEB

The state currently assumes responsibility for funding the majority of teacher pensions on behalf of local school districts. Given the large unfunded liabilities for teacher pensions across the state, a reduction in this support by the state represents a contingent risk for all local school districts. District teachers participate in the Teachers Retirement System (TRS) of Illinois, while other staff participate in the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Very high unfunded pension liabilities are a significant drag on the state's credit quality, and TRS represents a material portion of the state's total pension burden.

Like its other pension systems, the State of Illinois contributes to TRS using a very back loaded and annually rising payment schedule. These rising costs have played a significant role in the state's ongoing budget challenges. Certain state legislators and the past two governors have considered shifting pension costs to Illinois schools and universities for a number of years, but to date have shown no inclination toward forcing local districts to pay for accumulated unfunded liabilities. Typically the proposals call for shifting current year benefit accruals to local districts, called "normal cost" or "service cost," over the course of anywhere between the next four years to over a decade.

Moody's adjusted net pension liability (ANPL) is much higher than reported pension liabilities because the market interest rates used to value pension liabilities are far lower than reported discount rates. For fiscal 2022, the district's ANPL was $79.5 million using a discount rate of about 2.8%, compared to plan reporting which had a net pension asset using a 7.2% discount rate.

The district participates in the Teacher Health Insurance Security Fund, a multiple-employer cost sharing OPEB plan. Adjusted net OPEB liabilities totaled $69 million for fiscal 2022.

ESG considerations

Environmental

Environmental considerations are a modest factor in the district's credit profile at this time. According to data from Moody's ESG Solutions the district, is located in an area at high risk for heat stress. The firm measures heat stress as the relative change in both the frequency and severity of hot days, as well as average temperature, though heat stress is unlikely to impact the local economy which is not agricultural. Cook County also has relatively high exposure to extreme rainfall events compared to counties nationally. Flooding throughout the county will be relieved by the Tunnel and Reservoir Plan (TARP) currently underway through the Metropolitan Water Reclamation District of Greater Chicago (Aa2 stable).

Social

Social considerations impact the district's credit profile. When adjusted for regional price parity, median family income is above average and property wealth as measured by full value per capita is solid. The rate of unemployment is typically above the state and median averages. The population trend is stable as parts of the district are mature, though there is planning for additional development in the near term.

Governance

The district's management practices are strong with conservative budgeting practices and maintenance of a five-year operating forecast that demonstrates forward looking planning. The district does not have a formal fund balance but maintains a target of minimum of 25% fund balance as a percentage of expenditures.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 3

Cook County C.C.S.D. 15 (Palatine), IL

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	129.2%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	103,480	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-5.2%	10.0%	Ba
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	31.5%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	35.7%	10.0%	Aaa
Institutional framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	82.0%	20.0%	Aaa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	3.0%	10.0%	Aaa
Notching factors			
Potential cost shift from state	-1.00		
Scorecard-Indicated Outcome			Aa3
Assigned Rating			**Aa2**

Sources: US Census Bureau, Cook County C.C.S.D. 15 (Palatine), IL's financial statements and Moody's Investors Service

Appendix

Exhibit 4
Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value ($000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
Financial performance		
Operating revenue ($000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ($000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash ($000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
Leverage		
Debt ($000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL ($000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB ($000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service ($000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water ($000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions ($000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US K-12 Public School Districts Methodology.
Source: Moody's Investors Service

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