MOODY'S INVESTORS SERVICE

CREDIT OPINION

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Will & Kankakee Counties Community Unit School District 207-U (Peotone), IL

Update to credit analysis

Summary

Peotone Community Unit School District 207-U, IL (Aa3) is a far south suburb of Chicago (Ba1 stable) and has a solid credit profile. The tax base is moderately sized and was $1.2 billion in the 2019 levy year. It grew at a modest average annual rate of 3% over the past five years because of appreciation of existing property. Resident income levels are above average with median family income estimated at 133% of the national figure. Residents have employment opportunities within the greater Chicago area. Enrollment totaled 1,400 for the 2020 academic year and management expects it to decline modestly over the next few years given area population trends. It has declined by an average of 2% over the past five years.

Reserves are strong and will likely remain so because of the district's good budget management. Reserves have grown over the past five fiscal years in large part because of the issuance of working cash bonds, which allow Illinois school districts to tap into an additional property tax levy. District residents voted down a levy increase in March 2020 that would have brought in an additional $3.6 million annually and would have eliminated the need for future working cash bond issuances. An upcoming issuance of these bonds is expected to result in a fiscal 2021 surplus of $1.2 million. State aid is also level for fiscal 2021. Unaudited results for fiscal 2020 show a $2.6 million deficit across operating funds (combined education, operations and maintenance, debt service, transportation, Illinois municipal retirement fund and working cash funds), close to that originally budgeted. The deficit is due to the planned use of prior working cash bond proceeds. Available operating fund balance totaled $14.9 million for fiscal 2019, a very strong 58% of revenue.

Property taxes are the biggest source of revenue for the district. Tax collections have not been materially impacted during the pandemic even though Will County (Aa1 stable) waived late fees and penalties for property tax payments for 60 days. Reliance on state aid is average compared to peers, comprising 11% of operating revenue in fiscal 2019. Total state support inclusive of on-behalf pension payments was 29%.

Net direct debt is low and totals $12.9 million, equal to 1.1% of full value and 0.5x fiscal 2019 revenue. The district has some contingent risk associated with state support for its contributions to an underfunded Teachers Retirement system. The three-year adjusted net pension liability (ANPL) is equal to a low 0.4x operating revenue and 0.8% of full value, reflecting that the state currently funds most teacher pensions on behalf of local school districts. The district's fixed costs, inclusive of debt service, pension and other post employment benefit (OPEB) contributions are a little high compared to peers at 21% of fiscal

2019 operating revenue, though these costs are primarily because of debt service, which is relatively predictable and supported by a dedicated levy.

The coronavirus outbreak is a social risk under our ESG framework, given the substantial implications for public health and safety. The pandemic is driving an unprecedented economic slowdown. We do not see any material immediate credit risks for the district. The situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the district changes, we will update the rating and/or outlook at that time

Credit strengths

» Healthy financial operations and strong liquidity

» Moderate debt burden

Credit challenges

» High fixed costs

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

Rating outlook

Outlooks are generally not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

» Material expansion of the district's tax base

» Reduced risk related to state-supported cost-sharing pension plan

Factors that could lead to a downgrade

» Significant declines in fund balance or liquidity

» Material increase in the district's debt or pension burden

Key indicators

Exhibit 1

Will & Kankakee Counties Community Unit School District 207-	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$985,715	$1,002,817	$1,053,387	$1,079,965	$1,112,979
Population	10,858	11,049	11,066	10,881	10,881
Full Value Per Capita	$90,782	$90,761	$95,191	$99,252	$102,286
Median Family Income (% of US Median)	134.6%	135.9%	136.7%	132.9%	132.9%
Finances					
Operating Revenue ($000)	$22,996	$24,269	$22,319	$22,745	$25,856
Fund Balance ($000)	$8,891	$11,882	$10,602	$11,036	$14,887
Cash Balance ($000)	$8,891	$11,882	$10,602	$11,036	$14,887
Fund Balance as a % of Revenues	38.7%	49.0%	47.5%	48.5%	57.6%
Cash Balance as a % of Revenues	38.7%	49.0%	47.5%	48.5%	57.6%
Debt/Pensions					
Net Direct Debt ($000)	$22,109	$22,815	$18,699	$13,229	$13,195
3-Year Average of Moody's ANPL ($000)	$6,591	$7,602	$9,435	$9,576	$9,299
Net Direct Debt / Full Value (%)	2.2%	2.3%	1.8%	1.2%	1.2%
Net Direct Debt / Operating Revenues (x)	1.0x	0.9x	0.8x	0.6x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.8%	0.9%	0.9%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.3x	0.3x	0.4x	0.4x	0.4x

Source: Issuer's audited financial statements; US Census Bureau

Profile

The district is located primarily in Will County about 45 miles southwest of Chicago and serves the village of Peotone, a small portion of the villages of Manhattan and Frankfort and surrounding unincorporated area. The district operates an early childhood center, one elementary school, one intermediate school, one middle school and one high school providing pre-K through twelfth grade education to roughly 1,400 students as of the 2020 academic year. The district's population totals about 10,900.

Legal Security

The district's debt is secured by its pledge of any legally available funds and pledge to levy ad valorem property taxes unlimited as to rate but limited as to amount pursuant to the district's debt service extension base (DSEB).

ESG considerations

Environmental

Environmental considerations are not material to the district's credit profile. According to data of Moody's affiliate, Four Twenty Seven, Will County is at relatively high risk for heat stress, water stress, and extreme rainfall compared to counties nationally, but the district itself has little direct exposure to this factor. In the near term, reserves would be sufficient to mitigate potential damage to district facilities in the event of a natural disaster.

Social

The social considerations for the district include a moderately sized tax base with above average resident income and wealth levels and below-average poverty levels. The district is in the far southern portion of the Chicago metro area and the population has declined modestly over the past 10 years. The district's reserves are sufficient to absorb the short-term impact of social issues that may arise.

All Illinois schools were closed as of March 17 in response to the coronavirus pandemic. New expenditures have been minimal and expected to be covered by CARES act funds and local grants. District schools have resumed in-person instruction for the 2021 academic year with a portion of students in remote learning.

Governance

Property taxes are the largest revenue source and the district has the ability to increase tax rates to offset valuation declines, but growth in receipts is subject to the Property Tax Extension Limitation Law (PTELL), which limits the annual growth in taxes to the lesser of 5% or growth in the Consumer Price Index (CPI), plus new construction. The district has managed budgetary shortfalls in the past by issuing working cash bonds. These bonds allow the district to tap into an additional property tax revenue and funds may be used for general operations.

Illinois school districts have an institutional framework score [1] of "A," which is moderate. 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 which are primarily debt service expenditures, as the state currently assumes most pension costs for most Illinois public school districts. Expenditures consist primarily of personnel costs, which are highly predictable.

Rating methodology and scorecard factor

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government'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 local government credits.

Will & Kankakee Counties Community Unit School District 207-

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$1,161,214	A
Full Value Per Capita	$106,719	Aa
Median Family Income (% of US Median)	132.9%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	57.6%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	11.8%	Aa
Cash Balance as a % of Revenues	57.6%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	11.8%	Aa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	0.9x	Ba
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.1%	Aa
Net Direct Debt / Operating Revenues (x)	0.5x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.8%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.4x	Aaa
Notching Factors:[2]		
Other Scorecard Adjustment Related to Debt/Pensions		Down
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	Aa3

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the latest GO Methodology Scorecard Inputs publication.
Source: Issuer's audited financial statements; US Census Bureau

Endnotes

1 The institutional framework score assesses a municipality's legal ability to match revenue with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See **US Local Government General Obligation Debt (July 2020)** methodology report for more details.

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