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Ratings

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Summary:

Flagg-Rochelle Community Park District, Illinois; General Obligation

Primary Credit Analyst:
Cora Bruemmer, Chicago + 1 (312) 233 7099; cora.bruemmer@spglobal.com

Secondary Contact:
David H Smith, Chicago + 1 (312) 233 7029; david.smith@spglobal.com

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Credit Profile		
US$7.71 mil GO pk bnds (alternate rev source) ser 2019B due 01/01/2045		
Long Term Rating	A-/Stable	New
US$6.0 mil GO pk bnds ser 2019A due 01/01/2040		
Long Term Rating	A-/Stable	New

Rationale

S&P Global Ratings assigned its 'A-' long-term rating to Flagg-Rochelle Community Park District, Ill.'s series 2019A general obligation (GO) park bonds and series 2019B GO park bonds (alternate revenue source). The outlook is stable.

Security and use of funds

The series 2019A GO park bonds are secured by any legally available funds of the district and by the levy of ad valorem taxes, unlimited as to rate or amount, on all taxable property within its borders. The series 2019B GO park bonds (alternate revenue source) are secured by proceeds received by the district from the issuance of its GO rollover bonds; any legally available funds of the district; and by the levy of ad valorem taxes, unlimited as to rate or amount, on all taxable property within the district. The series 2019B GO bonds are alternate revenue source bonds, structured with a covered abatement, as the district will not abate the debt service levy prior to having sufficient funds on hand for debt service. The bonds were approved by voters in an election on April 2, 2019 for an amount up to $14 million, but the district does not plan to issue any additional debt at this time. Proceeds from the series 2019A and B bonds will be used to construct a community center, which will include a fieldhouse, two swimming pools, a fitness center, a kitchen/concession area, administration offices, classrooms, and multipurpose rooms.

Credit overview

The rating reflects our view of the district's:

- Adequate economy with access to both Rockford and DeKalb;
- Trend of stable, balanced operations; and
- Very strong cash reserves on a percentage basis.

Offsetting the above strengths, in our view, are the district's elevated carrying charges and slow amortization. Additionally, while strong on a percentage basis, the district's reserves are low nominally.

Flagg-Rochelle Community Park District owns and maintains 17 parks and provides a variety of recreational programming. Following the construction of the community center being financed by this debt issuance, its operations will expand significantly. The new community center will include the district's only fitness center, field house, and indoor pools. There is some operational risk as the district expands its offerings, but it has a history of strong financial performance and an experienced management team. The debt burden is moderate relative to its population and market value; however, debt service as a percentage of expenditures is significantly higher, which we view as a weakness and a limiting credit factor. The high fixed costs are mitigated somewhat by the district's expectation to use its debt service levy and rollover bond proceeds (also funded by a property tax levy) to pay the bonds, rather than expanded program revenue.

Economy

The district serves all of Flagg Township, which is estimated to have 13,300 residents, and includes the city of Rochelle, Hillcrest and unincorporated areas. It is 25 miles south of Rockford and 20 miles west of DeKalb, which is home to the University of Northern Illinois. Residents commute to both, but Rochelle also has its own employment base, which draws people in from outside district boundaries. Top employers in Rochelle include Rochelle Foods Inc. (pork processor, 750 employees), Rochelle Community Hospital (250), Americold (food storage, 236), and Rochelle Consolidated School District 231 (225). The top ten taxpayers make up 18% of the district's equalized assessed value (EAV), which we consider relatively diverse. Management reports that Americold is adding a large automated cold storage warehouse that is expected to add about $5 million to the district's EAV. Otherwise, there have been no significant changes with the top employers or taxpayers.

We consider Rochelle's income adequate, with median household effective buying income at 85% of the national level in 2018. Estimated full value of the district in 2018 was $800.6 million, or $60,196 per capita, which we consider strong. Overall, EAV has been rising, mostly due to appreciation of real estate rather than new development. Given this trend, we expect the district's economy to remain adequate but stable over the next two years.

Finances

The district has reported stable performance in its combined general and recreation funds in recent years, with a slight deficit of $21,000 (2.8% of expenditures) in 2016 but surpluses of $19,000 (2.4%) and $78,000 (10.8%) in 2017 and 2018, respectively. Its available fund balance as a percentage of expenditures in the combined general and recreation fund at fiscal year-end 2018 was $295,695, or 40.8% of expenditures, which we consider very strong, but low on a nominal basis. The fiscal 2019 (April 30 year-end) financial statements are not yet available, but management is projecting break-even operations. The fiscal 2020 budget has not yet been approved by the board, but it is expected to show a slight surplus in both funds, and we expect it will continue to post break-even-to-surplus operations. Management plans to maintain reserves at their current level as its informal target is $300,000 across the general and recreation funds.

The new community center is expected to be completed in October 2020 and included in the fiscal 2021 budget. Current estimates show that operating expenditures will increase by roughly $465,000 in its first year and reach $634,000 by its fourth year. Management expects memberships and program revenue to cover the increased expenditures, but is not relying on these revenues for debt service. It has prior experience operating fitness centers and annually reviews its programming to adjust when programs are not profitable. Additionally, while the community center is designed to benefit district residents, management notes there is significant demand for recreational space from residents in DeKalb. The district has not included any substantial usage by outside customers in its forecasts, but reports there may be that flexibility if initial resident demand does not meet expectations.

Currently the district's operating revenue consists of property taxes (54%), program revenue (21%), replacement taxes (8%), and other (3%). The district is levying at its maximum rate for its general corporate and recreation levies; as a result, revenue may be dictated by increases or decreases in its EAV. The district is in Ogle County, which is not subject to the Property Tax Extension Limitation Law (PTELL).

Management

The district board is made up of seven elected members, including the president, vice president, and secretary. Day-to-day operations are managed by the executive director and the superintendent of administration and finance, both of whom have previous experience in recreation and programming. With regard to management policies and practices, the district maintains a capital project list that looks out five-to-ten years and is updated annually. The list provides detailed project information and costs for most projects, but does not specifically identify revenue sources. The district does not have a fund balance policy, but has an informal target to maintain roughly $300,000 across its general and recreation funds. At the close of fiscal 2018 it had $295,695.

Debt

In our opinion, the district's overall debt burden is moderate, at 5.1% of market value and $3,082 per capita. However, relative to budget, the debt service expenditures are expected to be very high. Prior to this issuance, the district's annual rollover bond payments were 46% of expenditures (minus capital outlay). After this issuance, we expect that the overall operating budget will grow, but we still expect debt service to be roughly 50% to 60% of expenditures (minus capital outlay). The district's amortization of its debt is also fairly slow, with 28% of direct debt principal to be retired within 10 years.

The district expects to pay debt service on the 2019B bonds using the proceeds from its GO rollover bonds, which it issues annually. The rollover bonds are subject to its non-referendum debt limit of 0.575% of EAV, which was $1.52 million (based on the district's 2018 EAV). The rollover bonds would provide over 3x coverage of debt service on the series 2019B bonds in 2019.

The district does not intend to issue any additional debt, other than its annual rollover bonds. However, voters approved up to $14 million of GO debt, so the district would have the ability to issue some additional debt, though it is nearing its statutory debt limit. If it were to issue additional debt, depending on the size and amortization, there could be downward rating pressure.

Pensions

The district's pension plan is administered by the Illinois Municipal Retirement Fund (IMRF), and it contributed 100% of its annual pension cost in 2018. Its IMRF plan was 130% funded in 2018, with a net pension asset of $464,546. The district's required contribution for fiscal 2018 was 0.5% of total governmental funds expenditures. It does not provide any other postemployment benefits.

Outlook

The stable outlook reflects our expectation that the district will manage the operational risk associated with the expansion of its facilities and maintain balanced operations and strong general and recreation fund reserves on a percentage basis. We do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

If the district's reserves levels were to grow to levels that we no longer consider low nominally and if its carrying charges were to decrease relative to budget, a higher rating is possible.

Downside scenario

Should the district experience weakening financial performance, leading to a structural imbalance and lower reserves, we could lower the rating.

Related Research

- Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006