

# RatingsDirect®

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## Summary:

# Batavia Park District, Illinois; General Obligation

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### Credit Profile

Batavia Pk Dist GO rfdg pk bnnds (alternate rev source)

*Long Term Rating*

AA-/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' long term rating on Batavia Park District, Ill.'s existing general obligation (GO) debt. The outlook is stable.

The rating reflects our view of the district's:

- Access to and participation in deep and diverse Chicago, Ill., metropolitan area;
- Very strong income and wealth levels;
- Very strong reserve levels; and
- Moderate debt levels with limited future debt needs.

The district's high carrying charges partly offset the above strengths.

The district's proceeds received from the issuance of its annual limited GO bonds or notes, pledged revenues from the district's corporate (general) fund, and unlimited ad valorem taxes secure the bonds. The district abates the property tax levy securing the alternate revenue source bonds in anticipation of a limited GO bond sale and other pledged revenues. In our opinion, the district has historically maintained adequate liquidity to cover debt service on its alternate revenue source bonds in case of a delay in the bond sale.

Batavia Park District serves primarily Batavia and small parts of neighboring Aurora, North Aurora, and the surrounding townships. The district provides a wide range of recreational programs, including preschool. The district lies 40 miles due west of Chicago in Kane County and has an estimated population of 26,000. We consider the district's economic indicators very strong with respect to the median household effective buying income (EBI) at 158% and per capita EBI at 141% of the national level. Through November 2014, Batavia's unemployment rate averaged 6%, lower than both the county (6.8%) and state (7.2%) levels.

The district's property tax base has declined by a consistent 4% annual average rate during the past three fiscal years to \$928.9 million in 2014, mainly due to falling residential property values. For 2015, district officials anticipate of the taxable base will decline by less than 2%. The corresponding estimated total market value was \$2.8 billion or \$106,995 per capita, which we still consider extremely strong.

In our opinion, the district maintained a very strong financial position despite two general fund operating deficits in the past three fiscal years. The district closed fiscal 2014 with a \$92,145 general fund operating deficit and an available fund balance of \$982,740 or 29.1% of operating expenditures, which we consider very strong. According to

management, the deficit in 2014 was mainly a result of large debt service payment in fiscal 2014. Apart from general fund, the district maintains a recreation fund. The recreation fund is where the district reports most of its program activities, which are mainly financed with program fees. The recreation fund's balance was \$1.2 million at the end of fiscal 2014. In fiscal 2014, the combined general and recreation fund balances was \$2.25 million or 36.4% of combined expenditures.

Officials wanted to synchronize the tax levy period with the budget process and hence decided to change the financial year-end to December from April. This move will also facilitate better planning of projects with budgets coming along in the first month of the year. The district closed fiscal 2014 in April and prepared financial statements for the eight-month period from May 2014 to December 2014. Management projects favorable operating results with an operating surplus of more than \$370,000 in the general fund and \$250,000 in the recreational fund at the end of December 2014.

The district's 2015 general fund budget totaled \$3.5 million, which is balanced with a use of approximately \$145,000 from the fund balance, while the recreation fund budget totaled \$2.6 million, which is balanced without any use from the fund balance. However, at the end of fiscal 2015, management anticipates a combined surplus of approximately \$170,000 from both the funds.

Standard & Poor's considers the district's financial management practices "good" under its Financial Management Assessment methodology, indicating that the financial practices exist in most areas, although governance officials may not formalize or regularly monitor all. The district strives to maintain a fund balance equal to three months' expenditures in its operating funds, despite having no formal reserve policy.

Overall net debt burden, including overlapping debt from school districts and other entities, is moderately high at \$4,866 per capita and moderate at 4.5% of market value. In our opinion, debt service carrying charges were high at 25.2% of total governmental funds expenditures in 2014. However, the district's rapid amortization plans to retire its entire debt by 2018 offsets the high carrying charges. The district does not have any additional debt plans at this time.

The district does not offer its retirees other postemployment benefits. Retirees, however, can remain in the district's health insurance plan, but they are responsible for paying the entire insurance premium. The district participates in the Illinois Municipal Retirement Fund, a defined benefit pension plan. According to state statutes, the district made its required annual contribution payment of \$239,000 or 3.3% of total governmental fund expenditures in fiscal 2014, and the plan was 78% funded as of the Dec. 31, 2013 actuarial valuation date.

## **Outlook**

The stable outlook reflects our opinion of Batavia Park District's very strong economic indicators, along with its access to Chicago MSA. The outlook also reflects our opinion of the district's very strong reserve levels and our expectation that management will take appropriate steps to maintain them. We could raise the rating within the two-year outlook horizon if the district exhibits a sustained trend of at least balanced financial operations and very strong reserve levels. Conversely, we could lower the rating if there is a material deterioration in financial operations and reserves.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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