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Ratings

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Summary:
DuPage County School District No. 53 (Butler), Illinois; General Obligation

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Credit Profile		
US$13.405 mil GO debt certs (ltd tax) ser 2022 due 01/01/2042		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to DuPage County School District No. 53 (Butler), Ill.'s series 2022 general obligation (GO) debt certificates. The outlook is stable.

The series 20221 GO debt certificates are secured by legally available funds. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, on RatingsDirect, we rate the series 2021 certificates at the same level as our view of the district's general creditworthiness because we think the district's ability to repay the obligation is closely tied to its operations, reflected by the GO rating.

Bond proceeds will be used to make ADA compliance upgrades, safety and security upgrades, renovations of academic spaces, and wellness and communal spaces. The district expects to complete these projects within three years.

The district's bonds are eligible for a rating above the sovereign because we believe it can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013), we view U.S. local governments as having moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of federal government intervention. The district predominantly derives its revenue from local sources, receiving 74% from local property taxes (when including on-behalf pension payments in our calculation), and has very strong fund balances.

Credit overview

Butler, a primarily residential district which encompasses primarily Oak Brook, embodies many of the typical characteristics of a 'AAA' rated issuer. The district has extremely high wealth (we measure wealth to be nearly $600,000 per capita) and incomes and is part of the broad and diverse Chicago metropolitan statistical area (MSA); financial operating results are consistently stable with no discernible budgetary pressures, even during the COVID-19 pandemic; and the management team is sophisticated and knowledgeable. Furthermore, it is seeing significant commercial development given its proximity to the Oak Brook Mall with all the neighboring businesses. Residential demand remains strong, which contributes to strong tax base growth that translates into a lack of reliance on state revenue, an inherent credit strength. The district anticipates drawing down its general fund to finance capital projects, but it will remain within its 50% operating balance policy. Given the responsive and forward-looking management, we expect the rating will remain stable at 'AAA'.

Other credit factors include our opinion of the district's:

- Low direct debt burden given it has used excess fund balance to minimize long-term debt;
- Very strong fund balances with a minimum policy of 50% of expenditures;
- Good management policies and practices; and
- Although the Illinois Teachers' Retirement System (ITRS) is very poorly funded, it is a state liability and does not directly affect the district's credit quality.

Environmental, social, and governance

Although the poorly funded ITRS is currently a state liability, we note governance risk would be elevated if Illinois were to shift the pension liability and required contributions onto the district without providing commensurate revenue-raising ability. We have also analyzed environmental and social risks relative to the district's economy, management, financial measures, and debt and liability profile and have determined all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the district's financial profile were to materially deteriorate to a level we no longer consider commensurate at the 'AAA' rating.

Credit Opinion

Extremely wealthy tax base deep inside the Chicagoland MSA, with very strong income levels

The district, 15 miles west of downtown Chicago, provides grade K-8 educational services at one elementary school and one middle school for residents of Oak Brook and a small portion of Westmont. With a tax base that is 80% residential, management expects tax base growth during the next few years. High demand to live in the area has led to rising residential property values and management reports that several major residential and commercial developments are underway. The district's proximity to the Oak Brook Mall and the surrounding businesses is a positive factor. The local economy has not experienced any material economic disruption due to the COVID-19 pandemic.

For S&P Global Economics' latest forecast, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021, on RatingsDirect.

Historical maintenance of very strong reserves, with a modest use of fund balance to fund facility needs

For the district's available general fund reserves, we included in the education assigned and unassigned, the operations & maintenance (O&M) funds, and the balance in the working cash fund. The district demonstrates a very stable and strong financial profile as it has produced operating surpluses in most years. The fiscal 2021 result reflects an operational deficit as the education, O&M, and working cash fund transferred a total of $3.9 million to the capital projects fund to pay for a portion of capital projects. We note the district reported a routine operating surplus prior to these transfers. Enrollment is currently at 444 and is expected to modestly decline to about 400 over the next five years. Excluding the state's on-behalf spending for the teacher's retirement plan, the district's revenue is 74% (when including on-behalf pension payments in our calculation) locally derived from property taxes, which we believe is a credit strength.

For fiscal 2022, the district budgeted for a slight operational deficit, but is tracking better than budget and will operationally, at least, break even. Management expects to spend approximately $3 million of reserves for capital projects in fiscal 2023. We do not expect this spend-down to materially affect our view of the district's financial profile given its extremely strong fund balance policy to maintain reserves at 50% of expenditures. The district received approximately $20,000 in COVID-19 federal relief from Cares Act I (ESSER I) and $66,000 from Cares Act 2 (ESSER II). Under the American Rescue Plan (ESSER III), it expects to receive approximately $171,000 in fiscal 2022. We do not believe these amounts to be material to the district's operations. Overall, we expect the financial profile to remain fiscally sound.

Good management policies and practices with a super-strong fund balance policy

Elements of the district's policies and practices include:

- Realistic and well-grounded assumptions when setting the annual budget;
- Monthly budget-to-actual monitoring with reports given to the board;
- Maintenance of robust and sophisticated long-term financial plans and capital plans;
- Formal investment management policy with monthly reports given to the board;
- Formal debt management policy which mirrors the state guidelines; and
- Formal fund balance policy which calls for the operating funds to maintain available reserves at 50% of operating expenditures, a level we consider very strong.

Low debt service carrying charges with average amortization and no additional debt plans

The district has $16 million in total direct debt outstanding. It does not have any privately placed debt obligations or variable-rate debt outstanding other than the bonds that are owned by its own education fund. Management does not plan to issue bonds within the next two years. Given the district's efforts to pay for capital needs on a pay-as-you-go basis, we expect the overall debt profile will remain affordable for the foreseeable future.

District pension costs are not an immediate pressure despite the largest plan being poorly funded

Pension and other postemployment benefit (OPEB) liabilities are not currently a rating pressure, as the state covers a majority of the teachers' plan contributions. We don't believe the district's limited contributions will rise materially in the next few years, even though the plan is very poorly funded. The district participates in an OPEB plan for retiree medical benefits, through which the state maintains primary responsibility for funding, with minimal contributions from the district.

The district participates in the following plans:

- Teachers' Retirement System of Illinois (TRS): 37.8% funded as of June 30, 2020, with the district's share of the plan's net pension liability (NPL) of $604,000 using a 7.0% discount rate.
- Illinois Municipal Retirement Fund (IMRF): 96% funded as of Dec. 31, 2020, with a NPL of $194,000 using a 7.25% discount rate.
- Teachers' Health Insurance Security Fund (THIS): 0% funded as of June 30, 2020, with the district's share of the plan's net OPEB liability of $53,000 using a 2.45% discount rate.

The district's pension and OPEB costs have been low as a share of total spending, and we expect will remain so as long as Illinois continues making contributions for school districts in the form of on-behalf subsidies. However, there is some longer-term risk of costs increasing if the state were to shift a greater share of the annual payments to the teachers' pension fund onto school districts statewide, as has been proposed. Given the state's historically poor funding discipline, we do not expect funding progress will be made in the near term for TRS. (For more information, see "Pension Spotlight: Illinois," published March 30, 2021.)

DuPage County School District No. 53 (Butler), IL -- Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population			4,785	4,801	4,784
Median household EBI % of U.S.	Very strong		186	184	179
Per capita EBI % of U.S.	Very strong		221	225	215
Market value ($000)		2,865,702	2,802,210	2,766,459	2,700,045
Market value per capita ($)	Extremely strong	598,893	585,624	576,226	564,391
Top 10 taxpayers % of taxable value	Diverse	16.3	17.8	18.0	18.4
Financial indicators					
Total available reserves ($000)		391	9,978	9,670	9,816
Available reserves % of operating expenditures	Very strong		81.4	83.2	74.2
Total government cash % of governmental fund expenditures			106.9	102.6	80.5
Operating fund result % of expenditures			0.4	(1.0)	10.3
Financial Management Assessment	Good				
Enrollment		444	486	525	524
Debt and long-term liabilities					
Overall net debt % of market value	Low	1.9	1.3	1.4	0.0
Overall net debt per capita ($)	High	11,097	7,842	7,853	110
Debt service % of governmental fund noncapital expenditures	Low		1.4	1.5	1.5
Direct debt 10-year amortization (%)	Slower than average	41	100	100	100
Required pension contribution % of governmental fund expenditures			0.7	0.9	0.0
OPEB actual contribution % of governmental fund expenditures			0.4	0.4	0.0

DuPage County School District No. 53 (Butler), IL -- Key Credit Metrics (cont.)					
	Characterization	Most recent	Historical information		
			2020	2019	2018
Minimum funding progress, largest pension plan (%)			90.8	97.6	

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020