MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa rating to Lake County Forest Preserve District's (IL) $25 million General Obligation Land Acquisition and Development Bonds, Series 2013

Global Credit Research - 07 Feb 2013

Aaa rating applies to $313.5 million of post-sale General Obligation debt

LAKE COUNTY FOREST PRESERVE DISTRICT, IL
Other Special Districts
IL

Moody's Rating

ISSUE		RATING
General Obligation Land Acquisition and Development Bonds, Series 2013		Aaa
Sale Amount	$24,995,000	
Expected Sale Date	02/11/13	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, February 07, 2013 --Moody's Investors Service has assigned a Aaa rating to Lake County Forest Preserve District's (IL) $25 million General Obligation Land Acquisition and Development Bonds, Series 2013. Concurrently, Moody's has affirmed the Aaa rating on the district's outstanding general obligation debt. Inclusive of the current offering, the district has $313.5 million of outstanding general obligation debt.

SUMMARY RATINGS RATIONALE

The Series 2013 bonds are secured by the district's general obligation unlimited tax pledge and proceeds will be used to finance land acquisition and capital improvements within the district. In addition to the current offering the district's debt portfolio includes outstanding general obligation unlimited and limited tax debt as well as general obligation backed debt certificates.

The Aaa rating, Moody's highest quality rating, is based on the district's substantial and diverse county-wide tax base; above average socioeconomic characteristics; strong financial operations; prudent management and low direct debt levels with slightly below average, but satisfactory, principal amortization.

STRENGTHS

- Historical maintenance of strong reserve levels

- Sizable, diverse tax base with close proximity to the City of Chicago

CHALLENGES

- Recent tax base declines with limited growth expected in the near term

Detailed Credit Discussion

SUBSTANTIAL, DIVERSE TAX BASE COTERMINOUS WITH LAKE COUNTY

Despite recent declines in valuation, it is expected that the district's tax base will remain stable over the long term given its favorable location north of the City of Chicago (GO rated Aa3/negative outlook). Coterminous with Lake

County (Aaa), the district provides a full range of services. In addition to land preservation and recreational activities, the district provides open space management important to drainage and flood control, as well as environmental and cultural education. The district's location, bordering Lake Michigan and with proximity to Chicago has resulted in strong residential growth and expanding commercial activity over previous decades. Current full valuation trends have reflected the depressed property market following the recent national economic downturn. The district's large $80.2 billion base has decreased annually on average by 0.4% from 2006 to 2011. Near term valuation declines are expected before returning to positive growth trends. Socioeconomic wealth indices for the county are above average with per capita and median family income standing at 139.5% and 145.6% of the national levels, respectively. The county's 2010 population of 703,462 has more than tripled since 1950, evidencing the previous rapid pace of residential and commercial growth in the region.

STRONG FINANCIAL OPERATIONS WITH SUBSTANTIAL OPERATING FLEXIBILITY

The district's financial operations will likely remain sound due to the district's already strong reserve levels and retained financial flexibility. The district has enjoyed sizable operating surpluses for the last eleven fiscal years. The district completed fiscal 2012 with a General Fund surplus of $2.7 million, increasing the district's reserves to over $29.2 million, or a strong 135.5% of fiscal 2012 General Fund revenues. The fiscal 2012 unassigned General Fund balance was $24.7 million representing 114.5% of General Fund reserves. The district maintains a formal policy to retain reserves (undesignated or unassigned General Fund) equivalent to 50% of annual expenditures. Management indicates they plan to use a portion of this fund balance for future advanced retirement of debt and capital improvements in accordance with this targeted reserve level. Officials have budgeted for a $1.5 million operating surplus in fiscal 2013 prior to the spending down of $7.0 million in capital expenditures and transfers for debt service purposes. The dedicated use of the General Fund balance for early debt retirement and capital development projects is not reflective of an operational imbalance. Current financial projections through fiscal 2017 show healthy reserve balances well above the 50% policy.

Repeated operating surpluses have been achieved largely due to prudent management and conservative budgeting with a number of projects being scaled back in light of the economic down-turn. While property taxes represent the district's single largest revenue source at approximately 81% of fiscal 2012 General Fund revenues, the district has successfully supported programs and general operations within the limitations on annual levy growth imposed by property tax caps. The district has the option of increasing existing fees, which are presently very competitive, and implementing new user fees. The district also retains flexibility to control operating expenses since nearly two-thirds of its employees are part-time or seasonal. Pension liabilities are 72% funded as the district continues to meet annual required contribution (ARC) levels. Additionally, investments are managed very conservatively. Given these factors, we expect the district to maintain strong financial operations and healthy reserves going forward despite the current economic environment.

MODEST DIRECT DEBT PROFILE WITH ADDITIONAL NEAR TERM BORROWING PLANNED

The district's direct debt burden, which currently stands at 0.4% of full value, will likely remain modest due to its sizable tax base and satisfactory amortization of principal despite future borrowing plans. County-wide growth has been accompanied by substantial increases in debt of the district's underlying jurisdictions, resulting in a moderate overall debt burden of 3.0% of full value. Principal amortization is satisfactory with 54.2% retired within ten years. The district passed a November 2008 referendum, with an impressive 66% approval rate, for $185 million of additional debt primarily for further land acquisition, of which this offering represents the fifth installment. The district anticipates issuing one more series of bonds in 2014 to complete the borrowing.

Of the outstanding bonds, the Series 2007A bonds were issued as variable rate (LIBOR-based interest rate) payable four times annually. As bondholders may not tender the bonds, the district faces no put risk and therefore did not secure a standby bond purchase agreement or letter of credit. The district entered into an interest rate swap agreement and received an upfront payment from the swap provider of $2.2 million, equivalent to the net present value of the refunding savings. The Series 2007A bonds represent approximately 15% of the district's outstanding debt. Despite market disruptions, officials report no problematic issues with these bonds. JPMorgan Chase (Long term rated A2/negative outlook) is the counter-party.

What Could Make The Rating Go Down

- Substantial narrowing of operational reserves to levels inconsistent with similar rated entities

- Significant erosion of the district's tax base and/or falling socioeconomic indicators

KEY STATISTICS

2010 Population (Lake County): 703,462 (+9.2% change since 2000)

2011 Full value: $80.2 billion (-0.4% average annual change since 2006)

2011 Full value per capita: $114,032

Lake County per capita income (as % of US): 139.5%

Lake County median family income (as % of US): 145.6%

Fiscal 2012 General Fund balance: $29.2 million (135.5% of revenues)

Net direct debt burden (as a % of full value): 0.4%

Overall debt burden (as a % of full value): 3.0%

Principal amortization (10 years): 54.2%

General obligation debt outstanding: $313.5 million

RATING METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Andrew T. Van Dyck Dobos
Lead Analyst
Public Finance Group
Moody's Investors Service

Mark G. Lazarus
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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