FITCH AFFIRMS CHICAGO PARK DISTRICT, IL GOS & IDR AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-01 September 2017: Fitch Ratings has affirmed the 'AA-' rating on the following Chicago Park District (CPD), IL bonds:

-- $533 million limited tax general obligation bonds (LTGO);
-- $289 million unlimited tax general obligation bonds (ULTGO);

Fitch also affirms the district's 'AA-' Issuer Default Rating (IDR).

The Rating Outlook remains Stable

SECURITY
The LTGO bonds are general obligations of the district payable from ad valorem taxes levied on all taxable property within the boundaries of the district, without limitation as to rate but limited as to amount by provisions of the statewide Limitation Law. The ULTGO bonds are general obligations of the district, payable from ad valorem taxes, unlimited as to rate or amount.

ANALYTICAL CONCLUSION

The 'AA-' IDR and GO rating are based on the district's strong financial performance. Significant available reserves provide an offset to the district's limited ability to independently increase revenues and uncertainty regarding the impact of pension reform on spending flexibility. The rating additionally reflects the diverse and stable economy which serves as the state's economic hub.

Economic Resource Base
The district was created in 1934 and is coterminous with the city of Chicago. It is one of the largest municipal park districts in the world, comprising 8,800 acres of green space in 598 parks, 246 field houses and 26 miles of lakefront property. Private cultural institutions that operate facilities on district property include the Museum of Science and Industry, Field Museum of Natural History, DuSable Museum of African American History, Adler Planetarium, John G. Shedd Aquarium, and the Art Institute of Chicago. Chicago serves as the economic and cultural hub for the Midwest region, and maintains good prospects for long-term stability if not growth.

KEY RATING DRIVERS

Revenue Framework: 'bbb'
Fitch believes that revenue growth will be in line with the rate of inflation based on recent improvements in property tax values and increasing fee revenue from growing demand for programs. The district has moderate independent legal ability to increase revenue primarily through concessions and recreational activity and program fees.

Expenditure Framework: 'aa'
Fitch expects natural expenditure growth to be above revenue growth; however, the district has significant flexibility over operating costs. Carrying costs for pension, debt service and other post-employment benefits (OPEB) are currently moderate but will likely increase based on concerns regarding the legal ability to implement pension reform.

Long-Term Liability Burden: 'aa'
The burden of long-term debt and direct pension obligations is moderate relative to the district's economic resources although large pension liabilities of overlapping governmental entities including the City of Chicago and Chicago Public Schools are an ongoing concern.

Operating Performance: 'aaa'
The district has exceptional capacity to manage through an economic downturn. Management has maintained strong reserve levels through the current economic recovery although annual pension contributions have consistently fallen well short of actuarially-based amounts.

RATING SENSITIVITIES
Lack of Pension Progress: The district faces legal challenges to the implementation of reforms that allow for actuarially-based funding of the pension while keeping annual payments moderate. Indications that future annual payments will grow to a point at which they become a strain on the operating budget would lead to negative rating pressure.

CREDIT PROFILE

The city's residents are afforded abundant employment opportunities within this deep and diverse regional economy. Chicago's population totaled 2.7 million in 2016, up 3.4% from the 2010 census, and accounts for 21% of the state's population. Socioeconomic indicators are mixed as is typical for an urbanized area, with above-average per capita income and educational levels but also elevated individual poverty rates. The city has seen moderate job growth every year since 2010 and taxable property valuations have increase by more than 10% for 2015 and 2016 combined.

Revenue Framework
The district receives approximately 60% of its general fund revenues from property taxes, which account for a small 5.6% of the total tax bill for a Chicago resident. The remainder of revenues are from fees and concession contracts including receipts from Soldier Field events (approximately 20%), personal property replacement tax (8%) and permits, rentals, contracts and other revenues.

Fitch believes revenue growth will likely be in line with inflation absent tax-rate adjustments. Growth in the property tax levy is limited under the Limitation Law to the lesser of 5% or the percentage increase in the Consumer Price Index. The district continues to see a robust demand for programs and services which has driven strong growth in fees and permits.

The district has moderate ability to independently increase revenue despite the property tax growth limitation through concessions and recreational activity and program fees.

Expenditure Framework
Park operations and maintenance account for approximately 37% of spending, followed by recreational programs and special services. Salary and wages account for approximately one half of budgeted operating expenditures.

Fitch expects the natural pace of expenditure growth to be above revenue growth based on current expenditure trends. The 2017 budget included a 2.3% increase in salary and wages due to contractual wage increases and additional hiring to support program growth and new facilities that are expected to generate either additional revenue or expenditure savings.

Given the district's recreational purpose, Fitch believes expenditure flexibility is greater than for most full-service governments. The district's ability to delay or cut projects from its capital plan and reduce staffing, approximately half of which is part time, is significant. The district has a history of adjusting spending as needed to maintain stable reserve levels.

Carrying costs for debt service, pensions and OPEB is currently 24% of total general fund expenditures. Debt service is expected to remain steady, as future borrowing plans are moderate; however, pension costs are expected to increase over the next several years, since the district has been underfunding the actuarial determined contributions (ADC).

The district maintains a single-employer pension plan that is governed by state law. Effective January 2015, the district enacted the Pension Reform Act to 1) increase annual employer funding including additional supplemental employer contributions of $12.5 million in 2015 and 2016 (approximately 30% of ADC) and an additional $50 million for 2019, 2) increase employee contributions, and 3) reduce cost of living increases. In 2016, the district paid 82% of its ADC which included the $12.5 million supplemental contribution required by the pension reform.

On Oct. 14, 2015, the district was served a summons challenging the constitutionality of the pension reform. On Oct. 19, 2016 the court ordered the reinstatement of a 3% annual cost of living increase and suspension of the increase in the amount of employee contributions and the increased tax levy to be paid by the Chicago Park District. Resumption of supplemental contributions under the Reform Act has not been determined, creating uncertainty regarding pension liabilities and future annual pension costs.

Long-Term Liability Burden
The long-term liability burden is moderate at approximately 15% of personal income. Pensions account for 4% of the total long-term liability burden. The net pension liability burden assumes pension reforms survive the current litigation. The long-term liability burden would remain moderate even if the reforms were overturned. The overlapping entities of the City of Chicago, Chicago Public Schools and Cook County all face elevated debt and pension underfunding. Overlapping pension liabilities are not included in CPD's long-term liability burden calculation. The resulting burden on the resource base is nonetheless a concern for Fitch.

The district's net pension liability increased as of Dec. 31, 2016 as a direct result of the court ruling modifying the Reform Act and from the emergence of a depletion date under GASB 68 requirements, resulting in a lowering of the discount rate to 5.82%. The ratio of net assets to liabilities at the adjusted discount rate is approximately 33% as of Dec. 31, 2016, down from 43% as Dec. 31, 2015 using a 7.5% rate. If other pension reforms are overturned by the court, the district would see increases in the net pension liability. If the current funding provisions remain in place, it would materially improve the district's pension outlook, including extending the depletion date to 2055 from the prior asset depletion date of 2023 prior to the reforms.

The majority of the long-term liability is from overlapping debt including City of Chicago, Cook County and Chicago Public Schools which account for 96% of the net overall debt. Overlapping debt accounts for over 13% of personal income. Direct debt accounts for less than 1% of personal income and future borrowing plans are modest.

Operating Performance
The district has maintained ample general fund reserves relative to inherent budget flexibility and potential revenue volatility in a moderate economic downturn, as illustrated by the Fitch analytical sensitivity tool (FAST). Fitch assesses the district's inherent budgetary flexibility as 'midrange' given the revenue limitations and solid ability to reduce expenditures.

Management's consistent maintenance of stable financial operations is reflected in the district's strong operating performance over the past decade; however, incorporated into that performance is the district's consistent underfunding of actuarially-based pension obligations. The district adheres to otherwise strong financial policies including the requirement to maintain a minimum working cash balance of $85 million (27% of general fund spending) and identifying pay-go sources for capital improvement projects. Included in the district's available general fund reserves in 2016 are the working cash fund with a balance of $96 million, $25.8 million in the economic stabilization reserve, $5 million in the personal property replacement tax revenue stabilization reserve and a $27 million long-term liability reserve. Fitch believes that the failure to implement actuarially-based pension funding measures could have a negative impact on the rating.

Contact:

Primary Analyst
Shannon McCue
Director
+1-212-908-0593
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Arlene Bohner
Senior Director
+1-212-908-0554

Committee Chairperson
Amy Laskey
Managing Director
+1-212-908-0568

Media Relations: Benjamin Rippey, New York, Tel: +1 646 582 4588, Email: benjamin.rippey@fitchratings.com.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
https://www.fitchratings.com/site/re/898466