

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Oak Park, IL's \$9.0M GO Bonds, Series 2015B

Global Credit Research - 24 Nov 2015

Aa3 applies to \$67.5M of GOULT debt post-sale

OAK PARK (VILLAGE OF) IL
Cities (including Towns, Villages and Townships)
IL

Moody's Rating

ISSUE	RATING
General Obligation Corporate Purpose Bonds, Series 2015B	Aa3
Sale Amount	\$9,000,000
Expected Sale Date	12/03/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, November 24, 2015 --Moody's Investors Service has assigned a Aa3 to the Village of Oak Park, IL's General Obligation Corporate Purpose Bonds, Series 2015B. Concurrently, we have maintained the Aa3 rating on the village's outstanding general obligations unlimited tax (GOULT) debt and the Aa3 on village's outstanding sales tax revenue bonds. The village has \$67.5 million of GOULT debt and \$10.0 million of sales tax revenue debt outstanding, post-sale.

SUMMARY RATING RATIONALE

The Aa3 GO rating reflects adequate operating fund reserves though limited liquidity due to interfund borrowing; improving enterprise fund operations; a sizable tax base in the Chicago (Ba1 negative) metropolitan area with an affluent demographic profile; and manageable debt profile but elevated unfunded pension liabilities. The Aa3 rating also considers that overall liquidity remains satisfactory despite the narrow operating fund position.

The Aa3 rating on the village's sales tax revenue bonds reflects the healthy debt service coverage; satisfactory legal provisions; recent growth in pledged revenues with modest declines historically; and no expectation of leveraging the pledged revenues.

OUTLOOK

Outlooks are not usually assigned to local government credits with this amount of debt outstanding.

WHAT COULD CHANGE THE RATING - UP

- Substantial and sustained improvement in operating fund reserves and liquidity
- Upward movement in village's GO rating (Sales Tax)

WHAT COULD CHANGE THE RATING - DOWN

- Declines in overall reserves and liquidity
- Further increase in unfunded pension liabilities
- Material decline in coverage levels or sales tax receipts (Sales Tax)

- Downward movement in village's GO rating (Sales Tax)

STRENGTHS

- Large tax base favorably located near Chicago
- Affluent socio-economic profile
- Home-rule government with considerable revenue raising flexibility
- Broad base that includes the strength of the statewide economy (Sales Tax)
- Very strong coverage levels expected to remain near 5.0x over the medium term (Sales Tax)

CHALLENGES

- Ongoing negative budgetary variances pressuring financial operations
- Pressured liquidity position in operating funds though overall governmental cash remains adequate
- Elevated unfunded pension liabilities
- Lack of legal separation between sales tax revenues for operations and for debt service (Sales Tax)
- Lack of a debt service reserve fund (Sales Tax)

RECENT DEVELOPMENTS

Since our last rating report on October 15th, 2015, no material credit developments have occurred. The balance of this report is largely unchanged from our previous report.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: MATURE INNER RING CHICAGO SUBURB WITH RECOVERING TAX BASE

The village's sizable \$4.2 billion tax base experienced significant valuation declines in recent years but began to regain value in 2014 and is expected to maintain long-term stability due to its strong socio-economic profile and favorable location in the Chicago metropolitan area. Located eight miles west of downtown Chicago in Cook County (A2 negative), this primarily residential community is one of the wealthiest in the state. The village's tax base declined significantly in recent years with declines of 13.7% in 2011, 7.9% in 2012, and 6.9% in 2013, reflecting broader economic trends. Favorably, the base grew by a modest 1.0% in 2014 and is projected to further stabilize over the term.

Approximately 87% of the village's valuation is classified as residential. Retail, restaurants, and other commercial properties are located in 11 distinct business districts throughout the village. Officials report that development activity continues in its downtown district. Interstate 290 and multiple commuter rail stations provide residents with access to employment centers throughout the region. The village's unemployment rates have historically trended below those of Illinois and the nation and was 5.1% as of July 2015 compared to 5.9% across the state and 5.6% across the nation. Resident income levels are high with per capita income and median family income at 165% and 164% of US medians, respectively, from 2008 to 2012, as estimated in the American Community Survey.

FINANCIAL OPERATIONS AND RESERVES: NARROW GENERAL FUND LIQUIDITY BUT AVAILABLE LIQUIDITY IN OTHER FUNDS; LACK OF LEGAL SEPERATION CAPS SALES TAX RATING

We expect the village's financial reserves will remain limited in the medium term. The village's combined Operating Fund, which includes the General and Debt Service Funds, has historically maintained a narrow financial position and has posted operating deficits, after transfers, during three of the last six years resulting in an available fund balance of \$5.9 million, or 11.0% of revenues at the close of fiscal 2014. This marks a notable improvement from fiscal 2012 when the available fund balance was \$3.2 million, or 6.6% of revenues. The improvement is primarily the result of the complete repayment of a large advance made from the General Fund to the village's Parking Fund. Village management has made a concerted effort to restructure the parking system's fee structure. At its peak the Parking Fund owed the General Fund \$10.6 million in fiscal 2007. For fiscal 2015, management is projecting a \$300,000 surplus in the General Fund and is currently working through its fiscal 2016 budget.

Although the indenture governing the village's sales tax debt treats pledged revenues separately from the village's general revenues, we do not consider the pledged revenues to be effectively separated from the village as they are temporarily pooled with the village's general revenues prior to being transferred to the trustee-held debt service accounts. Therefore, the sales tax rating is capped at the village's general obligation rating. The rating on the sales tax debt also considers the ample debt service coverage provided by pledged revenues (MADS coverage is 4.87 times) and a satisfactory 1.5 times ABT.

Liquidity

While the village has made marked improvement towards improving its enterprise funds, namely the Water Fund and the Parking Fund, the village's Operating Fund liquidity remains very narrow and closed fiscal 2014 with a \$45,000 balance, or 0.1% of operating revenues. This is due primarily due to the village's treatment of its General Fund as a pass through for its tax increment financing (TIF) funds. The General Fund currently is owed \$5.6 million from the Special Tax Allocation Fund, in order to reimburse the General Fund for debt service payments and previous TIF distributions, and \$3.9 million from the Capital Improvements Fund for operating expenses and contractual services. In addition, the General Fund owes \$7.4 million to the Madison Street TIF Fund for previously borrowed cash. The fiscal 2014 balance sheet for the Special Tax Allocation Fund includes \$12.9 million of land held for resale as an asset. Management reports that they are awaiting a final land sale in its central TIF business village in order to settle the amount owed to the General Fund which would allow the General Fund to repay its portion to the Madison Street Fund. Management indicates that they are working through alternate scenarios to settle the advances by the end of fiscal 2015 in the event that the land sale does not materialize in time.

While we note the pressured liquidity positions across the Operating Funds as defined in our methodology, we recognize the satisfactory liquidity position of the village across all governmental activities which totaled \$12.7 million, or 18.1% of operating revenues in fiscal 2014. This does not include an additional \$3.6 million in unrestricted liquidity held in the Parking Fund, which management reports could be used for operations if necessary.

DEBT AND PENSIONS: MANAGEABLE DEBT PROFILE BUT SIZABLE UNFUNDED PENSION LIABILITIES

The village's debt burden will likely remain moderate due to its above average debt repayment schedule. At 1.9% and 4.4% of full value, respectively, the village's direct and overall debt burdens are slightly above average but are still affordable. Debt service as a percentage of operating expenditures is manageable at 13.4% in fiscal 2014. Total fixed costs (debt service, other post-employment benefits, and pensions) as a percentage of operating revenue is high at 30.1% of fiscal 2014 revenue.

Debt Structure

All of Oak Park's outstanding debt is fixed rate. The village's long-term debt profile consists of \$67.5 million of outstanding GOULT bonds and \$10.0 million in sales tax revenue bonds. Principal retirement of the village's outstanding long-term debt is above average with 74.2% of debt retired within ten years.

In addition to the village's publicly rated debt, the village also has a \$9.5 million letter of credit (LoC) with a local bank. The LoC was taken out in September 2014 as part of a development agreement between the village and a private real estate developer in order to guarantee the village's purchase of 300 parking spaces for a parking garage in the village's downtown that is currently being constructed. The village reports that this LoC has never been drawn upon and has no intention of ever doing so. The village plans to finance the parking space purchase with a GO debt issuance sometime over the next year.

Debt-Related Derivatives

The village is not party to any swap or derivative agreements.

Pensions and OPEB

Oak Park's unfunded pension burden remains large despite annual contributions from the village that exceed the annual required contributions (ARCs) determined by plan actuaries. Management has adopted slightly more conservative actuarial assumptions in the city's single employer police and fire pension funds including an investment return of 7.2% from 7.5% in 2011. Although the village's police and fire pension plans are single employer plans, benefits and employee contribution levels are established by Illinois statute. State statute also outlines minimum employer contributions, which the village has consistently exceeded. Non-public safety employees of the Village of Oak Park participate in the Illinois Municipal Retirement Fund (IMRF).

The three year average adjusted net pension liability (ANPL) for the village is elevated at 4.0 times operating revenues, or 5.3% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. Oak Park's pension liabilities are a source of operating budget pressure for the city with a fiscal 2014 ARC of \$8.8 million, or a significant 16.2% of operating revenues.

MANAGEMENT AND GOVERNANCE: HOME RULE STATUS PROVIDES BROAD REVENUE RAISING AUTHORITY

Illinois cities have an institutional framework score of 'A' or moderate. Cities are dependent on property and sales taxes, with largely predictable expenditures. Cities may be exposed to declining state payments if shared income tax receipts are cut as recommended by the Governor. Oak Park received \$5.0 million in income tax receipts in fiscal 2014, equivalent to 9.1% of operating revenues.

While the city cannot make benefit adjustments given they are outlined in state statute, management has worked to address unfunded pension liabilities by contributing above the Actuarial Required Contribution (ARC). Management has also demonstrated a willingness to make operations adjustments as evidenced by the elimination of payables from the Parking Fund to the General Fund but has also demonstrated weaknesses given its recent history of negative budget to actual variances. As a home-rule municipality, the city has significant financial flexibility as it has the power to impose variety of taxes without voter approval.

KEY STATISTICS

2014 Full value: \$4.2 billion

2014 Estimated full value per capita: \$79,700

2008-2012 Median family income (as a % of US): 163.5%

Fiscal 2014 Available Operating Fund Balance: 10.1%

5-Year Change in Available Operating Fund Balance as a % of revenues: 7.6%

Fiscal 2014 Operating Fund Cash Balance: 0.1%

5-Year Change in Operating Fund Cash Balance as a % of revenues: -3.8%

5-Year Average Operating Revenues / Operating Expenditures: 0.93 times

Institutional Framework: A

Net Direct Debt / Full Value: 1.9%

Net Direct Debt / Operating Revenues: 1.4 times

3-year average of Moody's ANPL / Full Value: 5.3%

3-year average of Moody's ANPL / Operating Revenues: 4.0 times

OBLIGOR PROFILE

The Village of Oak Park is an inner ring Chicago suburb located approximately eight miles west of downtown and serves a population of approximately 52,000.

LEGAL SECURITY

All of the village's outstanding GOULT bonds are secured by the authorization to levy a tax unlimited as to both rate and amount to pay debt service.

All of the village's outstanding sales tax bonds are limited obligations of the village are secured by the village's receipt of revenues derived from its municipal home rule sales tax and its share of the sales tax collected by the state.

USE OF PROCEEDS

The Series 2015B bonds will be used to finance street and alley improvements as well as equipment purchases.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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