

RatingsDirect®

Summary:

Oak Park, Illinois; General Obligation

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Credit Profile

US\$13.63 mil GO corp purp rfdg bnds ser 2015A due 11/01/2029

Long Term Rating AA/Stable New

Oak Park Vill GO

Long Term Rating AA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Oak Park, Ill.'s series 2015A general obligation (GO) corporate purpose refunding bonds. We also affirmed our 'AA' rating the village's outstanding GO debt. The outlook is stable.

The series 2015A bonds are secured by unlimited ad valorem property taxes. The village will use bond proceeds to refund prior debt for savings.

The rating reflects our view of the village's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2014, which closed with operating deficits in the general fund and at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 10.8% of operating expenditures;
- Strong liquidity, with total government available cash of 12.0% of total governmental fund expenditures and 95.3% of governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges of 12.6% of expenditures and net direct debt that is 82.7% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) liability and the lack of a plan to sufficiently address the obligation, but rapid amortization with 80.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Oak Park's economy very strong. The city, with an estimated population of 51,940, is located in Cook County in the Chicago-Naperville-Elgin MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 154% of the national level and per capita market value of \$84,585. The county unemployment rate was 7.4% in 2014.

Oak Park is eight miles west of downtown Chicago, and both Metra suburban commuter trains and Chicago Transit Authority elevated trains serve the village. The village is mostly built out and is primarily residential with a wide variety of rental and owner-occupied housing; it contains more than 60 homes and buildings designed by architect

Frank Lloyd Wright, including his former studio.

The village's equalized assessed value (AV) declined by 14% from 2011 to 2013 before increasing 1% to \$1.38 billion in 2014. The village's estimated market value is currently \$4.4 billion, including incremental value associated with tax increment financing districts. The tax base is very diverse in our view, with the 10 largest taxpayers accounting for 4% of equalized AV.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management provides the board with monthly budget-to-actual reports, and prepares the budget with the help of a five-year capital improvement plan. Management does not maintain financial projections. The board adopted an investment policy, and receives treasurer's reports with portfolio information monthly. The formal fund balance policy requires a minimum general fund balance equal to at least 10% of the current year's expenditures, 60% of which should be cash and investments.

Adequate budgetary performance

Oak Park's budgetary performance is adequate in our opinion. The city had operating deficits of 2.3% of expenditure after transfers in the general fund and 2.3% before transfers across all governmental funds in fiscal 2014 (Dec. 31). Our assessment accounts for the fact that we expect budgetary results could improve from 2014 results in the near term.

The village is a home rule entity, which means that it is not subject to property tax rate or levy caps and can increase its home rule sale tax without voter referendum. For fiscal 2015, management projects a general fund surplus after transfers of about \$300,000.

Strong budgetary flexibility

Oak Park's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 10.8% of operating expenditures, or \$5.5 million.

Available reserves consist of the general fund assigned and unassigned fund balances. The village's unassigned general fund balance improved in recent years as the parking fund repaid amounts borrowed from the general fund. Efforts to restructure the parking system and increase parking fees resulted in a return to positive operations a few years ago.

Strong liquidity

In our opinion, Oak Park's liquidity is strong, with \$9.1 million of total government available cash of 12% of total governmental fund expenditures and 95.3% governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

We believe the village has strong access to external liquidity because of its recent history of GO debt issuance. With management's projections for a general fund surplus in 2015, we believe liquidity will likely remain strong over the near term.

Very weak debt and contingent liability profile

In our view, Oak Park's debt and contingent liability profile is very weak. Total governmental fund debt service is 12.6% of total governmental fund expenditures, and net direct debt is 82.7% of total governmental fund revenue. Approximately 81% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

In our opinion, a credit weakness is Oak Park's large pension and OPEB liability, without a plan that we think will sufficiently address the obligations. Oak Park's combined pension and OPEB contributions totaled 12.3% of total governmental fund expenditures in 2014. Of that amount, 11.6% represented contributions to pension obligations and 0.7% represented OPEB payments.

The village has three pension plans for its employees: separate single-employer, defined-benefit plans for the police and firefighters, and the Illinois Municipal Retirement Fund (IMRF) for other employees. For fiscal 2014, the village paid 98.7% of its IMRF annual pension cost (APC) according to the IMRF's multiyear phase-in program, 102.4% of its police APC, and 102.6% of its firefighters APC. The village paid over 100% of its police and firefighters APC in 2012 and 2013. The village's IMRF funded level was 82% as of Dec. 31, 2012, which we consider adequate. As of Dec. 31, 2013, the police pension fund had a funded ratio of 61%, while the firefighters' pension fund had a funded ratio of 47%, levels which we consider low. The village subsidizes retiree health care benefits on a pay-as-you-go basis. Total pension APCs and OPEB costs in 2014 were \$9.3 million. We regard the village's low funded levels for its police and firefighters and its high pension costs to be negative credit factors.

Strong institutional framework

The institutional framework score for Illinois home-rule cities and villages is strong.

Outlook

The stable outlook reflects our expectation that the GO bond rating will not change within a two-year horizon because we believe the village will take the steps necessary to maintain balanced general fund operations in most years, strong financial flexibility, strong liquidity, and at least adequate budgetary performance.

Upside scenario

A higher rating is predicated on improvement in the village's very weak debt and contingent liability profile.

Downside scenario

We may lower the rating if Oak Park is unable to maintain balanced operations, causing budgetary performance and flexibility to weaken as a result.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of October 16, 2015)

Oak Park Vill GO

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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