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## Summary:

# Oak Park Village, Illinois; General Obligation

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## Summary:

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### Credit Profile

US\$8.755 mil taxable GO rfdg bnds ser 2018A due 12/01/2026

*Long Term Rating*

AA/Stable

New

## Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Oak Park Village, Ill.'s series 2018A taxable general obligation (GO) refunding bonds (Holley Court Garage Project). The outlook is stable.

The proposed \$8.8 million in 2018A bonds will refund outstanding portions of the village's series 2006C sales tax revenue bonds for interest cost savings. The 2018A bonds are secured by revenue from the village's unlimited-tax GO pledge.

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;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 60% of total governmental fund expenditures and 4.8x governmental debt service, and access to external liquidity we consider strong, but an exposure to a non-remote contingent liability risk;
- Very weak debt and contingent liability position, with debt service carrying charges at 12.4% of expenditures and net direct debt that is 119.8% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### Very strong economy

We consider Oak Park's economy very strong. The village, with an estimated population of 51,757, is located in Cook County in the Chicago-Naperville-Elgin MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 177% of the national level and per capita market value of \$80,375. Overall, the village's market value grew by 3.9% over the past year to \$4.2 billion in 2017. The county unemployment rate was 6.2% in 2016.

Oak Park is 8 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. Equalized assessed value (AV) has fluctuated in recent years, with a 3.5% year-over-year drop in levy year 2015 valuation that was followed by a 3.9% year-over-year increase in levy year 2016. Properties in Oak Park will likely see a bump up in valuation due to the triennial reassessment next year. Additionally, the village expects that roughly \$300 million in new development, consisting of multifamily and mixed-use development, will add to its tax base in upcoming levy years. We believe that the new development will support Oak Park's very strong economic profile.

### **Strong management**

We view the village'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 quarterly budget-to-actual reports. The annual budget ties in items from the annually updated, rolling five-year capital improvement plan. Management does not produce 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. The village does not have a debt management policy.

### **Strong budgetary performance**

Oak Park's budgetary performance is strong in our opinion. The village had operating surpluses of 1.9% of expenditures in the general fund and of 2.4% across all governmental funds in fiscal 2016.

Oak Park 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 sales tax without voter referendum.

We adjusted the village's general fund and total governmental funds expenditures to reflect bond proceeds spending and recurring transfers. For fiscal 2016, the village reported an \$841,827 general fund surplus prior to transfers and the sale of assets, which was achieved through positive budget variances. The \$2.3 million sale of two properties also contributed to the village's positive fiscal 2016 result in the general fund. The total governmental funds ended with a positive result when we deducted roughly \$9.4 million of expenses that were funded from bond proceeds.

Future performance of the total governmental funds could be dampened by spending down tax increment funds as two tax increment financing (TIF) districts near their expiration. The village wants to be sure all the TIF eligible projects are completed as planned prior to TIF expiration.

The village expects to end fiscal 2017 with a general fund result that ranges from a modest deficit of \$200,000 to potentially break-even results. The village's sales tax revenues are slightly off budget, but expenditures are showing generally positive budget variances. Apart from spending down TIF funds, the village is not expecting any major deficits in any of the special revenue or governmental funds.

The village is still in the process of constructing its 2018 budget. Officials would like to increase the self insurance fund with a \$1 million transfer from the general fund. The village's personnel and personnel-related expenses are fairly

predictable. Equalized assessed value is expected to grow, which could generate additional revenue for the village, depending on how it sets its tax levy.

We expect the village's overall budgetary performance will remain strong in 2017, and that officials will make every effort to balance its budget with no material use of reserves.

### **Very strong budgetary flexibility**

Oak Park's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 16% of operating expenditures, or \$8.5 million.

Available reserves consist of the general fund assigned and unassigned fund balances, which are considered available. The village's unassigned general fund balance improved in recent years as the parking fund repaid amounts borrowed from the general fund. Village officials expect to maintain reserves at the close of fiscal 2017; as such, we expect its available budgetary flexibility to remain at least strong.

### **Very strong liquidity**

In our opinion, Oak Park's liquidity is very strong, with total government available cash at 60% of total governmental fund expenditures and 4.8x governmental debt service in 2016. In our view, the village has strong access to external liquidity if necessary. Weakening Oak Park's liquidity position, in our assessment, is the village's exposure to a non-remote contingent liability that could come due within 12 months.

The village of Oak Park entered into a direct purchase agreement with Community Bank of Oak Park River Forest in December 2015. The principal balance on the loan is currently roughly \$729,000, maturing Jan. 1, 2019. The village also entered into a direct purchase agreement with Pan American Bank in Melrose Park in September 2014. The principal balance on the loan is currently about \$335,000, maturing September 2019.

The loan agreements include payment provisions that change on the occurrence of certain events. The events of default slightly differ between the two agreements, but there are aspects of the events of default that, in our view, are permissive and are in the banks' favor. Some of these include covenant defaults, material adverse changes of the borrower's financial condition, lender insecurity, and so forth. The loan agreements in both cases allow the banks to accelerate all amounts due and payable if there is an event of default. The remaining interest and principal of these two loans represent 2% of general fund revenues, an amount which does not weaken our view of the village's liquidity. There are currently no events occurring that would indicate acceleration under the loan is imminent.

We believe the village has strong access to external liquidity because of its recent history of GO debt issuances. With management's projections for neutral financial results in 2017, we believe liquidity will likely remain very strong in the near term. We adjusted the village's total government available cash to account for restricted cash held in special revenue funds.

### **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 12.4% of total governmental fund expenditures, and net direct debt is 119.8% of total governmental fund revenue.

The village indicates that it plans to issue an additional \$3 million to \$4 million in new money debt for various capital

projects within the next year. The village has roughly \$116 million in GO debt, tax secured debt, capital leases and notes payable outstanding. Our calculation of debt burden includes the proportionate share of overlapping debt, including the GO alternate revenue source debt of various overlapping jurisdictions.

In our opinion, a credit weakness is Oak Park's large pension and OPEB obligation. Oak Park's combined required pension and actual OPEB contributions totaled 13.3% of total governmental fund expenditures in 2016. Of that amount, 12.6% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The village made 105% of its annual required pension contribution in 2016. The funded ratio of the largest pension plan is 49.4%.

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. Under GASB 68 reporting, the plans reported the following, based on a discount rate of 6.5%:

- The police pension plan: 49.4% funded, with an \$89.2 million net pension liability;
- The firefighters' plan: 36% funded, with a \$79.6 million net pension liability; and
- IMRF plan: 92% funded, with a \$6.5 million proportionate share of the net pension liability.

In our view, the village has taken positive steps to address its pension liabilities, though we recognize that it will take time for these liabilities to improve. Oak Park's policy is to amortize 100% of its police and fire pension liability, which is higher than the statutory threshold of reaching 90% funding, by 2040. As a result, the village's contributions for the past three years have been in excess of state required contributions.

With respect to retiree health care benefits, all retirees who stay on the village's plan contribute 100% of the premium to the plan, which results in an implicit subsidy to the village as defined by the GASB Statement No. 45.

### **Strong institutional framework**

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

## **Outlook**

The stable outlook reflects our expectation that we will not change the rating within the two-year horizon because we believe the village will take the steps it deems necessary to maintain balanced general fund operations in most years. We anticipate that the village will maintain very strong liquidity and very strong budgetary flexibility in the near term. The village's participation in the broad and diverse Chicago MSA further supports the rating.

### **Upside scenario**

We could raise the rating in case of improvement in the village's very weak debt and contingent liability profile, including improvement with respect to the village's underfunded pension liabilities, and all other credit factors remain consistent.

### **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 Research**

2017 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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