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Ratings

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Summary:

Oak Park Village, Illinois; General Obligation

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Credit Profile		
US$10.7 mil taxable GO corp purp bnds ser 2016E due 11/01/2036		
Long Term Rating	AA/Stable	New
US$10.1 mil GO corp purp bnds ser 2016D due 11/01/2036		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Oak Park Village, Ill.'s series 2016D general obligation (GO) corporate purpose bonds and series 2016E taxable GO corporate purpose bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on the village's existing GO debt. The outlook is stable.

The series 2016D and 2016E GO bonds are secured by unlimited ad valorem property taxes. The village will use the series 2016D bond proceeds to finance street and alley improvements. The village will use the series 2016E bond proceeds to finance a portion of an economic development project, specifically a portion of the cost of a 588-spot parking garage. The village will own 300 of the spaces.

The rating reflects our view of the village's:

- 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 (FMA) methodology;
- Weak budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2015, which closed with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 10.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 24.3% of total governmental fund expenditures and 2.1x governmental debt service, and access to external liquidity we consider strong, but an exposure to a nonremote contingent liability risk;
- Very weak debt and contingent liability position, with debt service carrying charges at 11.7% of expenditures and net direct debt that is 136.9% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Strong economy

We consider Oak Park's economy strong. The village, with an estimated population of 51,960, 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 164% of the national level and per capita market value of $77,046. Overall, the village's market value fell by 3.5% to $4 billion in 2016. The county unemployment rate was 6.1% in 2015.

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 but the village expects that roughly $250 million in new development, consisting of multifamily and mixed-use development, will add to its tax base in either levy year 2017 or levy year 2018. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for 5% of equalized AV.

Strong management

We view the village's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that 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, 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. The village does not have a debt management policy.

Weak budgetary performance

Oak Park's budgetary performance is weak in our opinion. The village had slight deficit operating results in the general fund of 1% of expenditures in fiscal 2015, and deficit results across all governmental funds of 11%. Our assessment accounts for our expectation that budgetary results could improve somewhat from 2015 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 sales tax without voter referendum.

For fiscal 2016, the village has budgeted an estimated $889,000 use of reserves, but expects that it will increase its unassigned fund balance by $800,000 to $6 million in 2016 from $5.3 million in 2015 as a result of positive budget variances. The total governmental funds will likely end fiscal 2016 with a deficit similar to that of fiscal 2015. While the overall impact of the deficit renders budget performance weak, the total governmental fund negative performance is mainly due to spending down tax increment funds as two tax increment financing (TIF) districts near their expiration. The two TIFs expire in two years, and the village wants to be sure all the TIF eligible projects are completed as planned. The general fund ended with a deficit in 2015, mainly as a result of weakness in utility tax revenue. We adjusted the village's revenue and expenditures to reflect recurring transfers in and out, and for expenditures tied to debt proceeds.

Given the plans to spend TIF funds, we expect the village's overall budgetary performance will remain weak in the near term, but that the actual performance may beat the budget as a result of positive budget variances.

Strong budgetary flexibility

Oak Park's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 10.5% of operating expenditures, or $5.3 million. Over the past three years, the total available fund balance has remained consistent overall, totaling 10.8% of expenditures in 2014 and 10.5% in 2013.

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. The village expects to report an increase in the assigned portion of its general fund balance to $6 million during fiscal 2016; as such, we expect its available budgetary flexibility to remain strong.

Very strong liquidity

In our opinion, Oak Park's liquidity is very strong, with total government available cash at 24.3% of total governmental fund expenditures and 2.1x governmental debt service in 2015. 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 nonremote contingent liability that could come due within 12 months.

We believe the village has strong access to external liquidity because of its recent history of GO debt issuances. With management's projections for a positive general fund result in 2016, we believe liquidity will likely remain very strong in the near term. We adjusted the village's total government available cash to account for unspent bond proceeds and for restricted cash held in special revenue funds.

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 $1.2 million, 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 about $494,000, maturing September 2019.

The loan agreements include payment provisions that change upon certain events. The events of default slightly differ between the two agreements, but some aspects of the events are, in our view, permissive and in the banks' favor (e.g., covenant defaults, material adverse changes of the borrower's financial condition, and lender insecurity). The loan agreements in both cases allow the banks to accelerate all amounts due and payable in an event of default. There are currently no events that would indicate acceleration under the loan is imminent.

However, if accelerations were to occur, the village has general fund reserves as well as $2.7 million in the debt service fund that would provide ready liquidity. The principal and interest on both loans amount to about $1.8 million, and the costs of these obligations are equal to less than 4% of general fund revenues.

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 11.7% of total governmental fund expenditures, and net direct debt is 136.9% of total governmental fund revenue.

The village plans to issue an additional $15 million in new money debt for various capital improvements, streets, and alley projects within the next two years.

In our opinion, a credit weakness is Oak Park's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Oak Park's combined required pension and actual OPEB contributions totaled 12.1% of total governmental fund expenditures in 2015, with 11.5% representing required contributions to pension obligations and 0.6% representing OPEB payments. The village made 95% of its annual required pension contribution in 2015. The funded ratio of the largest pension plan is 50.4%.

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. The police pension plan is 50.5% funded with an $82.3 million net pension liability, the firefighters' plan is 36.5% funded with a $75 million net pension liability, and the IMRF plan is 92.0% funded with a $6.5 million proportionate share of the net pension liability.

The village has paid more than the statutorily required amounts to its police and fire plans in recent years, targeting 100% of the actuarial amounts. In 2015 audit the village paid nearly the full actuarially determined contribution (ADC) for its police and fire pension plans and 100% of the ADC for the IMRF plan. The village board is considering paying more than the actuarially determined contribution to further boost the funding ratios in the police and fire plans.

The village does not pay retiree health care premiums, but allows retirees to stay on the plan at their own cost; this yielded a liability of $7.5 million as of the most recent actuarial report dated Dec. 31, 2014.

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 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.

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

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 10, 2016)		
Oak Park Vill GO		
Long Term Rating	AA/Stable	Affirmed
Oak Park Vill GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.