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New Issue

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Oak Park (Village of), IL

New Issue - Moody's Assigns A1 to Oak Park, IL's GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned an A1 rating to the Village of Oak Park's $10.1 million General Obligation (GO) Corporate Purpose Bonds, Series 2016D and $10.4 million Taxable GO Corporate Purpose Bonds, Series 2016E. Moody's also maintains the A1 rating on the village's outstanding GO debt. Following the sale, the village will have $90.7 million of rated GO debt and $10 million of sales tax revenue debt outstanding.

The A1 GO rating reflects the village's sizable tax base and affluent demographic profile; somewhat limited reserve position and available liquidity; significant financial flexibility stemming from its home rule status; and manageable bonded debt with elevated and growing pension liabilities.

The sales tax revenue bonds are also rated A1 because they are capped at the Village's GO rating due to a lack of legal separation between the pledged revenue and the village's general operations.

Credit Strengths

» Large tax base favorably located near Chicago (Ba1 negative)

» Affluent socio-economic profile

» Home-rule government with considerable revenue raising flexibility

» Strong debt service coverage expected to remain near five times over the medium term (sales tax)

Credit Challenges

» Somewhat limited reserve position and available liquidity compared to similarly rated entities

» Sizeable unfunded pension liabilities

» Lack of a debt service reserve fund (sales tax)

Rating Outlook

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

Factors that Could Lead to an Upgrade

» Sustained improvement in operating fund reserves and liquidity

» Moderation of pension liabilities

» Upward movement in village's GO rating (sales tax)

Factors that Could Lead to a Downgrade

» Declines in reserves and liquidity

» Increased debt burden or further increase in unfunded pension liabilities

» Downward movement in village's GO rating (sales tax)

Key Indicators

Exhibit 1

Oak Park (Village of) IL	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 5,557,507	$ 4,795,507	$ 4,414,903	$ 4,111,760	$ 4,153,171
Full Value Per Capita	$ 107,637	$ 92,611	$ 85,062	$ 79,091	$ 79,709
Median Family Income (% of US Median)	163.4%	163.5%	169.6%	170.0%	170.0%
Finances					
Operating Revenue ($000)	$ 51,206	$ 49,400	$ 52,621	$ 54,341	$ 55,728
Fund Balance as a % of Revenues	15.4%	6.6%	10.8%	11.0%	10.5%
Cash Balance as a % of Revenues	1.2%	0.4%	1.7%	0.1%	2.3%
Debt/Pensions					
Net Direct Debt ($000)	$ 90,502	$ 86,349	$ 91,856	$ 85,446	$ 88,037
Net Direct Debt / Operating Revenues (x)	1.8x	1.7x	1.7x	1.6x	1.6x
Net Direct Debt / Full Value (%)	1.6%	1.8%	2.1%	2.1%	2.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)		3.4x	3.6x	4.0x	4.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)		3.5%	4.3%	5.3%	6.2%

Source: audited financial statements, Moody's Investors Service, US Census Bureau

Recent Developments

When our last rating report was published in July 2016, officials were expecting to end fiscal 2016 with balanced operations. Officials now project the village will end the year with an operating surplus of at least $600,000 due to favorable revenue variances.

Detailed Rating Considerations

Economy and Tax Base: Mature Inner Ring Chicago Suburb

We expect the village's economic base to remain a credit strength supported by its favorable location in the Chicago metropolitan area. The village's $4 billion tax base has lost 28% of its value since 2009. The base continues to trend downward albeit at a slower rate with a 3.5% decline in equalized assessed valuation (EAV) in the most recent year. Official report that preliminary EAV for fiscal 2016, the triennial assessment, indicate strong growth. Despite recent declines, the full value per capita remains strong at $77,000. Officials report four new mixed used developments will add at least $100 million in EAV in coming years with additional valuation expected when the downtown tax increment financing district expires in 2019.

The village is primarily residential at 87% of EAV, but is also home to 11 business districts anchored by a thriving downtown area. As of July 2016, the village's unemployment rate of 4.8% was below the state rate of 5.6% and on par with the national rate of 5.1%. The village has an affluent demographic profile with median family income at 169% of the US level.

Financial Operations and Reserves: Available Liquidity Remains Somewhat Limited Despite Improvement in the Parking Fund

We expect the village's financial reserves will remain limited given significant fixed costs and ongoing interfund borrowing. The village closed fiscal 2015 with an available Operating Fund (General Fund and Debt Service Fund) balance of $5.6 million, or an adequate 10% of revenues. The available fund balance has improved from a recent low of $3.2 million, or 6.6% of revenues in fiscal 2014 due primarily to the complete repayment of a large advance made by the General Fund to the Parking Fund supported by a restructuring of the parking system's fee structure. Officials project the village will close fiscal 2016 with an operating surplus of at least $600,000 due to favorable revenue variances.

The village's primary exposure to the State of Illinois (Baa2 negative) are shared income tax revenues, which comprised 11% of fiscal 2015 operating revenues. Sales tax revenue trends have been stable with a five year average annual growth rate of 0.4% inclusive of a 4% increase in 2015. Sales tax revenues provide ample debt service coverage for the village's sales tax revenue bonds (MADS coverage is 4.87 times).

LIQUIDITY

The village's Operating Fund liquidity remains very narrow at $1.3 million, or 2.3% of revenues, though there is alternate liquidity in other funds. The Operating Fund cash is lower than the fund balance due in large part due to $5.7 million owed to the General Fund from other funds including the Capital Improvements Fund and various special revenue funds. Officials report the borrowing is a result of the village's practice of pooling cash across funds. While a portion of funds may be repaid during the course of the year, there is not a detailed repayment plan or identified revenue source for repayment of all of the borrowing.

While the liquidity position across the Operating Funds as defined in our methodology is very narrow, we recognize the satisfactory liquidity position of the village across all governmental activities which totaled $16.1 million, or 23% of operating revenues in fiscal 2015. A large portion of the governmental activities cash ($7.9 million) is held in the Madison Street TIF, which is planned to be spent down by fiscal 2018. Absent improvement in other funds, the spend down would reduce the governmental activities cash to $7.9 million, or an estimated 12% of revenues.

The cash position in the enterprise funds is mixed. The Parking Fund has healthy cash of $5.2 million, or 443 days cash on hands. Despite operational improvement in recent years, the Water and Sewer Fund cash remains limited at $254,000, or 8.3 days cash on hand.

Debt and Pensions: Manageable Bonded Debt Profile but Sizeable Unfunded Pension Liabilities

The village's debt burden is manageable, but heavy pension liabilities will likely remain a source of operating pressure. The village's debt burden is somewhat above average though manageable at 2.3% of full value or 1.7 times operating revenue. The village's pension burden is elevated with a three year average Moody's adjusted net pension liability of 6.5% of full value, or 4.6 times revenues. The village's fixed costs inclusive of debt service, pension contributions, and other post-employment benefits (OPEB) was a significant 31% of operating revenues. The village is planning to finance at least $10 million of its capital improvement plan in 2017, with additional GO bond issuances in 2018 and 2019 in amounts to be determined.

The village's sales tax bonds benefit from an additional bonds test set at satisfactory 1.5 times ABT. 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.

DEBT STRUCTURE

The village's long-term debt profile consists of $90.7 million of outstanding GOULT bonds and $10.0 million in sales tax revenue. Principal retirement of the village's outstanding long-term debt is average with 60% of debt retired within ten years.

The village has a $9.5 million letter of credit (LoC) with a local bank. The LoC has a variable interest rate that is the highest of the following: the bank's prime rate plus 1.5%; the Federal Funds Rate plus 2.0%; the daily LIBOR Rate plus 1.0%; or 7.5%. The interest is calculated on an actual 360 day basis and is paid quarterly. 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. The village reports that this LoC has never been drawn upon, and village management has no intention of doing so. The village plans to terminate the LoC following issuance of the Series 2016E bonds, which will finance the purchase of the parking spaces.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

The village's pension liabilities are elevated and growing, which was a key driver of our downgrade of the village to A1 from Aa3 in July 2016. Although the village's police and fire pension plans are single employer plans, benefits and employee contribution levels are established by Illinois statute. Non-public safety employees of the Village of Oak Park participate in the Illinois Municipal Retirement Fund (IMRF). On a reported basis, the combined unfunded liabilities for all three plans grew to $166 million in fiscal 2015 from $100.9 million in fiscal 2013. Officials attribute the growth in part to more conservative actuarial assumptions including a new mortality table and lowering the discount rate. Over the same time, the three year average Moody's ANPL grew to $258 million from $191 million. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities.

Officials report that their funding policy is to adhere to the actuarial determined contribution (ADC) and may consider additional contributions in coming years. The fiscal 2015 audit records a shortfall in funding the ADC of $442,000, which officials attribute to the timing of property tax levy. The village's fiscal 2015 contributions plans fell further below our estimated “tread water” indicator, with the village contributing 85% of this benchmark. The “tread water” indicator measures the annual employer contribution required to prevent the reported net pension liability from growing, under plan assumptions. After accounting for employee contributions, annual government contributions that tread water equal the sum of employer service cost and interest on the reported Net Pension Liability at the start of the fiscal year. The gap between the village's actual plan contributions and the tread water indicators was $1.6 million, which is equivalent to 2.8% of revenues. That shortfall will likely moderate as the village increased contributions by approximately $1 million in fiscal 2016 to continue funding at the ADC.

The village has an other post employment liability of $7.5 million, which primarily reflects the implicit rate subsidy of permitting retirees to remain on the village's health care plan.

Management and Governance: Home Rule Status Provides Broad Revenue Raising Authority

Illinois cities have an institutional framework score of “A,” or moderate. Revenue predictability is moderate, with varying dependence on property, sales, and state-distributed income taxes. Revenue-raising ability is also moderate but varies. Home rule entities have substantial revenue-raising authority. Non-home rule entities are subject to tax rate limitations. Expenditures are moderately predictable but cities have limited ability to reduce them given costs for pension benefits that enjoy strong constitutional protections. Oak Park's home rule status provides significant financial flexibility as it is not subject to property tax levy limits, has no statutory debt ceiling, and has the power to impose a variety of taxes without voter approval.

Legal Security

The Series 2016D and the village’s outstanding GOULT bonds are secured by the village’s GO pledge with the ability levy a tax unlimited as to both rate and amount to pay debt service. The village files a debt service levy with the county at the time of issuance. The village directs the county to abate a portion of the levy each year for GO debt that is expected to be paid with alternate revenue sources such as enterprise and tax increment revenues.

The village's outstanding sales tax revenue bonds are secured by collections of its home rules sales tax and state shared sales taxes.

Use of Proceeds

The Series 2016D bonds will finance street and alley improvements, the Series 2016E bonds will finance a portion of the cost for a parking garage project.

Obligor Profile

The Village of Oak Park is an inner ring Chicago suburb located approximately eight miles west of downtown and with a population estimated at 52,100.

Methodology

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

Ratings

Exhibit 2

Oak Park (Village of) IL

Issue	Rating
General Obligation Corporate Purpose Bonds, Series 2016D	A1
Rating Type	Underlying LT
Sale Amount	$10,100,000
Expected Sale Date	10/17/2016
Rating Description	General Obligation
Taxable General Obligation Corporate Purpose Bonds, Series 2016E	A1
Rating Type	Underlying LT
Sale Amount	$10,400,000
Expected Sale Date	11/07/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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