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Ratings

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Summary:

Oak Park, Illinois; General Obligation

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Summary:

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Credit Profile		
US$10.445 mil GO corporate purp bnds ser 2020A due 11/01/2040		
Long Term Rating	AA/Stable	New
US$3.94 mil GO corporate purp rfdg bnds ser 2020B due 01/01/2025		
Long Term Rating	AA/Stable	New
Oak Park Vill GO		
Long Term Rating	AA/Stable	Affirmed
Oak Park Vill GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating to Oak Park, Ill.'s anticipated $10.4 million series 2020A general obligation (GO) corporate purpose bonds and $3.94 million series 2020B GO refunding corporate purpose bonds. At the same time, we affirmed our 'AA' long-term ratings on the village's outstanding GO debt. The outlook is stable.

The village's unlimited-tax GO pledge secures the bonds, which are being issued to fund road and other capital projects. Officials plan to use the bond proceeds to from the series 2020A bonds to pay for various capital projects, such as street projects and the installation of fiber optic lines through the village. The 2020B bonds will refund outstanding portions of 2011B bonds for interest cost savings.

Credit overview

Oak Park is a mature, vibrant suburb located just west of Chicago. As a result of what we consider the village's very strong operating reserves and liquidity and its budget balancing efforts, we think it is well-positioned to navigate COVID-19's economic and financial effects during the next few fiscal years. However, the village's ongoing challenge, in our view, will be its poorly funded police and fire pension plans. We believe the larger contributions to these plans, juxtaposed against a weakened revenue climate, will likely be a source of budget pressure for the foreseeable future, and will require determined and consistent funding discipline, which could be challenging during the recession.

The COVID-19 pandemic has caused the national economy to fall into recession, as reported by S&P Global Economics (see "U.S. Real-Time Economic Data Signals A Faltering Recovery" published June 25, 2020 on RatingsDirect), which we think likely foreshadows a near-term economic slowdown at both the local and state levels, could result in a pressured state funding environment, and outcomes may be worse than previously expected (see "U.S. Real-Time Economic Data Signals A Faltering Recovery" published Aug. 3, 2020 on RatingsDirect). While the scope of economic and financial challenges posed by COVID-19 remains unknown, and could cause fluctuations in economically sensitive revenue, we think the village's very strong liquidity provides a meaningful hedge against near-term revenue volatility. We will monitor the effects of COVID-19 on the village's revenue and expenses.

Generally, our rating outlook timeframe is up to two years but given the current uncertainty around the pandemic, our view of the credit risks to the village centers on the more immediate budget effects in fiscal 2021.

The rating further 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 an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 54.2% of total governmental fund expenditures and 6.4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 8.5% of expenditures and net direct debt that is 99.4% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the social risk posed by the COVID-19 pandemic, which could affect various sources of fee and tax revenue. Beyond the aforementioned social risk, we analyzed the village's environmental and governance risks relative to its budgetary outcomes, and debt and liability profile, and believe they are in line with those of the sector.

Stable Outlook

Downside scenario

We could lower the rating if the village's budget performance and flexibility weaken in the face of recessionary pressure, without a plan to correct. Another indication the village's budget is becoming imbalanced is if its commitment to funding its pensions weakens and contributions begin to fall below the ADC.

Upside scenario

We could raise the rating if the village's economic measures strengthen, its pension funding levels show steady improvement, and its reserves grow and are sustained at stronger levels.

Credit Opinion

Very strong economy

We consider Oak Park's economy very strong. The village, with an estimated population of 50,864, is located in Cook County in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 173% of the national level and per capita market value of $99,823.

Overall, the village's market value grew by 6.3% over the past year to $5.1 billion in 2020. The county unemployment rate was 3.8% in 2019.

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 3.8% year-over-year drop in levy year 2018 valuation after a 19.4% increase due to the triennial reassessment. Levy year 2019 increased 6.3% year-over-year. Multifamily and mixed-use development will likely add to its tax base in upcoming levy years, supporting economic strength. However, the economy may be challenged to overcome unemployment weakness. Cook County's June 2020 unemployment stood at 17.4%, well above the state's 14.6% rate.

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 and includes a forecast for the following budget year. 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.

Adequate budgetary performance

Oak Park's budgetary performance is adequate in our opinion. The village had surplus operating results in the general fund of 2.3% of expenditures, and balanced results across all governmental funds of 0.2% in fiscal 2019.

We anticipate Oak Park's budgetary performance will remain at least adequate in the current and following year. While we expect Oak Park to generate a general fund deficit in fiscal 2020, we believe that management's adjustments to the budget to generate a closer breakeven result in 2021.

The village expects to end fiscal 2020 with a $3 million to $5 million general fund deficit after enacting mid-year budget cuts to at least partly offset revenue losses caused by social distancing efforts. Officials initially projected 25% to 50% revenue losses in sales tax and other local taxes and fees. Actual revenue since then has performed better than expected, and officials believe revenue may come in roughly 10% to 15% under budget in some of the revenue line items. Across the budget, the village cut $17 million of cuts including $12 million of capital projects and the rest out of the general and parking funds. Property tax revenue accounts for roughly 57% of budgeted general fund revenue. Sales and income taxes account for 11% and 8%, respectively. The village's general fund also relies on real estate transfer taxes, a variety of utility taxes, and various fees and charges.

As officials prepare for the 2021 budget, it is with the expectation that the budget is likely to be affected by recessionary pressure for at least the current and following year, and that cuts and other budget balancing measures should be sustainable.

For fiscal 2019, the village reported a roughly $1.4 million general fund surplus after transfers, which was achieved through positive budget variances.

We adjusted the village's general fund and total governmental funds expenditures to reflect recurring transfers which are mainly capital or debt related. The total governmental funds ended with a positive result when we deducted roughly $9.3 million of non-recurring tax increment finance expenses.

Oak Park is a home-rule entity, which means that it is not subject to property tax rate or levy caps and can increase or impose a variety of taxes without voter referendum.

Very strong budgetary flexibility

Oak Park's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 23% of operating expenditures, or $14.3 million.

Despite an expected use of reserves in fiscal 2020, we believe the village's budgetary flexibility will remain very strong. Officials are taking steps to close any potential budget gaps in 2021 without relying on reserves. As such, we expect budgetary flexibility will remain very strong.

Very strong liquidity

In our opinion, Oak Park's liquidity is very strong, with total government available cash at 54.2% of total governmental fund expenditures and 6.4x governmental debt service in 2019. In our view, the village 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 issuances. Despite some budget pressure, we believe liquidity will likely remain very strong in 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 8.5% of total governmental fund expenditures, and net direct debt is 99.4% of total governmental fund revenue.

The village indicates that it has no plans to issue additional debt in 2020 or 2021. The village has roughly $105 million in GO debt, tax secured debt, capital leases and notes payable outstanding. Of this amount, 63% is due to be will be repaid by 2030.

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 14.0% of total governmental fund expenditures in 2019. Of that amount, 13.3% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The village made 105% of its annual required pension contribution in 2019. The funded ratio of the largest pension plan is 58.2%.

In our opinion, a credit weakness is Oak Park's large pension obligation but we note the village continues to take steps to address the obligation by making contributions above statutory requirements, however we still believe pensions will remain a pressure.

The village's pension other postemployment benefit (OPEB) liabilities reflect:

- We believe that pension and OPEB liabilities represent a potentially worsening medium-term source of credit pressure, and could weigh on its budget performance, particularly in light of the current weak revenue climate.
- The village's single-employer defined benefit public safety pension plans are poorly funded and growing pension contributions could add to budgetary stress each year.
- The village allows retirees to stay on its healthcare plan, but it does not pay for retiree healthcare benefits.

Oak Park participates in the following plans:

- Single-employer public safety plans covering police and firefighters: 58.2% funded and 43.8% funded (both measured as of Dec. 31, 2019), respectively, with unfunded actuarial accrued liabilities totaling $147.5 million across both plans.
- Illinois Municipal Retirement Fund (IMRF, an agent plan): 91% funded, with a $10.1 million proportionate share of the net pension liability.
- A single-employer, defined-benefit OPEB plan, which is 0% funded with a $14.2 million implicit liability.

The village's actuarially determined contributions for its police and fire pension plans are sized to exceed the 90% state requirement; instead the goal is to reach 100% funding by 2040. The actual minimum funding progress for the two plans in 2019 was 77% and 71% for police and fire, respectively, and static funding is about 100% in both plans. This indicates that despite the larger contributions made by the village, in recent years even slightly above the actuarially determined contribution, its progress in improving funding levels will take time. The 6.75% discount rate for the police and fire plans is above our 6.00% guideline, which indicates additional market risk that could lead to contribution volatility. The village pays OPEB on a pay-as-you-go basis, and it is not amortizing the unfunded liability.

Strong institutional framework

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

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of September 4, 2020)		
Oak Park Vill taxable GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Oak Park Vill GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Ratings Detail (As Of September 4, 2020) (cont.)

Many issues are enhanced by bond insurance.