S&P Global Ratings

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Summary:

Oak Park Village, Illinois; General Obligation

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Summary:

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Credit Profile		
US$3.035 mil taxable GO corp purp rfdg bnds ser 2021 due 11/01/2035		
Long Term Rating	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' rating to Oak Park Village, Ill.'s series 2021 taxable general obligation (GO) corporate purpose refunding bonds. At the same time, we affirmed our 'AA' long-term rating on the village's GO debt outstanding. The outlook is stable.

The series 2021 bonds (approximate par amount: $3.035 million) are secured by the village's unlimited-tax GO pledge and are being issued to refund the series 2016B taxable GO corporate purpose bonds for interest cost savings.

Credit overview

Oak Park is a mature suburb located just west of Chicago. Based on our view of its very strong operating reserves and liquidity, along with proactive budgetary management, we expect the village will be able to navigate the future challenges the very large unfunded liabilities affiliated with its police and fire pension plans will present. We believe the larger contributions to these plans will likely be a source of budget pressure for the foreseeable future, and will require determined and consistent funding discipline.

The rating further reflects our view of the village's:

- Very strong economy, supported by above-average income and wealth metrics and by its location in a broad and diverse metropolitan statistical area (MSA);
- Strong institutional framework score and management, with good financial policies and practices under our Financial Management Assessment methodology;
- Very strong reserves and liquidity, which are expected to remain stable with the support of strong budgetary performance;
- Very weak debt and contingent liability position, reflecting its large unfunded pension liabilities

Environmental, social, and governance factors

Our rating incorporates our view regarding the governance risk posed by the village's very large unfunded pension liabilities and the effects they may have on future budgetary results. Beyond the governance risk, we analyzed the village's environmental and social 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 Oak Park's budgetary performance and flexibility weaken, without a plan to correct. Even if balanced operating results are reported in the audits, we would consider budgetary performance to be deteriorating if funding progress on the village's poorly funded pensions plans weakens.

Upside scenario

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

Credit Opinion

Very strong economy, reflecting above-average incomes and wealth metrics and participation in the Chicago MSA

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.

The village's equalized assessed value (EAV) is subject to triennial reassessments, with most of the growth being captured during reassessments and small fluctuations in non-reassessment years. EAV growth in non-reassessment years has been supported by new commercial and multi-residential redevelopments. The most recent reassessment reflects new redevelopment projects along with strong appreciation of existing properties. Additional multi-family and mixed-use redevelopments are expected to further add to the tax base in upcoming years. This anticipated tax base growth, participation in the broad and diverse Chicago MSA, and the village's high incomes support our expectation that the local economy will remain very strong.

During the first few months of the COVID-19 pandemic, Cook County's unemployment rate spiked, which we have incorporated in our analysis. However, this is likely to improve in 2021 as unemployment through the first eight months of the year was below 10%, according to the Bureau of Labor Statistics. For the latest on S&P Global Economics' views of the pandemic and economic recovery, see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off" published Sept. 23, 2021, on RatingsDirect.

Strong management, reflecting long-term capital planning, quarterly budgetary monitoring, and a formal fund balance policy

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 fund balance policy also states that no more than 20% of the current year's expenditures should be held in reserves. However, because of uncertainty related to the pandemic, officials decided to exceed the upper limit of this policy temporarily. Oak Park does not have a debt management policy. It has practices and policies in place to help mitigate cyber security risks.

Strong financial profile, reflecting proactive budgetary practices

The village is currently finalizing its fiscal 2022 budget. Officials report that the budget will include a $4 million spend-down of American Rescue Plan Act (ARPA) money received in fiscal 2021. Aside from this spend-down, the 2022 budget is expected to be balanced even with a $700,000 increase in police and fire pension contributions.

Oak Park expects to receive about $39 million of ARPA funding: Half was received during fiscal 2021 and half will be received during fiscal 2022. The village used a portion of the ARPA money received in 2021 to offset lost revenue and for housing and food programs, local business grants, and other eligible expenses. Officials report fiscal 2021 is projected to end with a $5.0 million surplus, including the ARPA funding. Conservative revenue forecasts were incorporated into the fiscal 2021 budget to account for uncertainty related to the pandemic. Revenue exceeded these conservative estimates and job vacancies and expenditure controls kept expenditures close to budget. Officials report no major deficits were incurred in the other governmental funds or enterprise funds.

At fiscal year-end 2020 (Dec. 31), the village had a $3.04 million surplus in its general fund. The surplus was fueled by proactive budget cuts in March at the onset of the pandemic. The budget was amended to reflect significant revenue shortfalls. Actual receipts exceeded these conservative expectations. Oak Park also received $1.8 million in Coronavirus Aid, Relief, and Economic Security Act funds. Total governmental funds ended fiscal 2020 with a slight surplus after we adjusted for capital spending funded with bond proceeds.

Given the fiscal 2020 surplus and reported surplus at fiscal year-end 2021, we expect reserves will remain above the village's fund balance policy upper limit. Officials have decided to keep the excess money available due to lingering uncertainty from the pandemic. Historically, Oak Park has held reserves at levels that comply with its policy and we expect it will continue doing so in the medium term. Likewise, we anticipate liquidity will remain very strong. We adjusted unspent bond proceeds from the cash and investments reported in the fiscal 2020 audit.

Very weak debt and contingent liability profile, reflecting an affordable debt burden with large unfunded pension liabilities

Oak Park has plans for additional capital projects that it will fund with a combination of excess reserves, grant proceeds, and potentially bond proceeds over the next couple of years. We do not expect the additional debt will significantly increase the village's debt burden. Following this refunding, Oak Park will have about $95 million in total direct GO debt, tax-secured debt, and capital leases. We have adjusted $19 million of this debt from our net direct debt figures because it is supported by enterprise funds. There is no variable-rate debt or direct placement debt outstanding.

In our opinion, a credit weakness is Oak Park's large pension obligations, but we note the village is taking steps to address the obligations by making contributions above statutory requirements. However, we still believe costs will escalate and continue to pressure the village's overall creditworthiness. The village's single-employer, defined-benefit public safety pension plans are poorly funded and rising pension contributions could add to budgetary stress each year. The village allows retirees to stay on its health care plan, but it does not make any direct contributions for retiree health care benefits.

Oak Park participates in the following plans:

- Single-employer public safety plans covering police and firefighters: 61.3% funded and 45.7% funded using a 6.75% expected return (both measured as of Dec. 31, 2020), respectively, with unfunded actuarial accrued liabilities totaling $146 million across both plans.
- Illinois Municipal Retirement Fund (an agent plan): fully funded, with a $1.2 million net pension asset.
- An implicit rate other postemployment benefits liability, which is 0% funded with a $15.8 million implicit liability.

Actuarially determined contributions for Oak Park's police and fire pension plans are sized to exceed the 90% state requirement; instead, the goal is to reach 100% funding by 2040. The 2020 contributions relative to our minimum funding progress metric for the two plans were 75% and 70% for police and fire, respectively. Contributions for both plans were very close to static funding. 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. For more information, see "Pension Brief: Single-Employer Pension Plans Are Straining Illinois Municipalities' Credit Quality," published July 27, 2021.

Strong institutional framework

The institutional framework score for Illinois home-rule cities and villages is strong. As a home-rule entity, Oak Park is not subject to property tax rate or levy caps and can increase or impose a variety of taxes without voter referendum.

Oak Park Village, Illinois -- Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Strong economy				
Projected per capita EBI % of U.S.	168			
Market value per capita ($)	121,139			
Population		50,240	50,864	50,890
County unemployment rate(%)		11.1		
Market value ($000)	6,086,046	5,077,413	4,777,518	
Ten largest taxpayers % of taxable value	4.6			
Strong budgetary performance				
Operating fund result % of expenditures		5.0	2.3	4.8
Total governmental fund result % of expenditures		(1.6)	0.2	2.8
Very strong budgetary flexibility				
Available reserves % of operating expenditures		29.3	22.7	20.3
Total available reserves ($000)		17,700	14,331	12,306
Very strong liquidity				
Total government cash % of governmental fund expenditures		62	54	59
Total government cash % of governmental fund debt service		663	635	585
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.3	8.5	10.1

Oak Park Village, Illinois -- Key Credit Metrics (cont.)	Most recent	Historical information		
		2020	2019	2018
Net direct debt % of governmental fund revenue	101			
Overall net debt % of market value	3.4			
Direct debt 10-year amortization (%)	59			
Required pension contribution % of governmental fund expenditures		16.5		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of November 5, 2021)		
Oak Park Village GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oak Park Vill taxable GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Oak Park Vill GO		
Long Term Rating	AA/Stable	Affirmed
Oak Park Vill GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Oak Park Vill GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.