

## CREDIT OPINION

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Update

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## Oak Park (Village of), IL

Update - Moody's Affirms A1 on Oak Park, IL's GO and Sales Tax Debt

### Summary Rating Rationale

Moody's Investors Service has affirmed the A1 rating on the Village of Oak Park, IL's general obligation unlimited tax (GOULT) and sales tax revenue debt. The village has \$96.4 million and \$10 million in outstanding GOULT and sales tax revenue debt, respectively.

The A1 rating considers the village's large and affluent tax base near Chicago (Ba1 negative), satisfactory reserves, improving financial position despite somewhat limited operating reserves and available liquidity relative to similarly rated entities, and broad legal authority to raise local revenue as an Illinois (Baa3 RUR) home rule unit of local government. The rating also takes into consideration the village's high pension burden and above debt burden.

The A1 rating on the sales tax revenue bonds reflects strong debt service coverage and the lack of legal separation from the village's general operations, which caps the sales tax rating at the GO rating.

### Credit Strengths

- » Large tax base outside Chicago; strong resident income indices
- » 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
- » Very high pension burden; elevated fixed costs
- » Lack of a debt service reserve fund (sales tax)

### Rating Outlook

Outlooks are typically not 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 the village's pension burden

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

## Factors that Could Lead to a Downgrade

- » Contraction of the village's tax base or weakening of the socioeconomic profile
- » Growth in the village's pension or debt burden
- » Weakening of operating reserves or available liquidity
- » Downward movement in the village's GO rating (sales tax)

## Key Indicators

Exhibit 1

Oak Park (Village of) IL	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 4,795,507	\$ 4,414,903	\$ 4,111,760	\$ 4,153,171	\$ 4,007,332
Full Value Per Capita	\$ 92,611	\$ 85,062	\$ 79,091	\$ 79,746	\$ 77,245
Median Family Income (% of USMedian)	163.5%	169.6%	170.0%	172.6%	172.6%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 49,400	\$ 52,621	\$ 54,341	\$ 55,728	\$ 59,687
Fund Balance as a % of Revenues	6.6%	10.8%	11.0%	10.5%	18.0%
Cash Balance as a % of Revenues	0.4%	1.7%	0.1%	2.3%	11.5%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 77,284	\$ 83,490	\$ 77,646	\$ 80,822	\$ 101,597
Net Direct Debt / Operating Revenues (x)	1.6x	1.6x	1.4x	1.5x	1.7x
Net Direct Debt / Full Value (%)	1.6%	1.9%	1.9%	1.9%	2.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.4x	3.6x	4.0x	4.6x	5.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.5%	4.3%	5.3%	6.2%	7.4%

Source: Audited Financial Statements; US Census; Moody's Investors Service

## Recent Developments

Since our last rating report on October 7, 2016 the village has published audited financial statements for fiscal 2016 that reflect a general fund operating surplus of \$841,000. The village's three year average Moody's adjusted net pension liability (ANPL) grew 16% from fiscal 2015 to fiscal 2016.

## Detailed Rating Considerations

### Economy and Tax Base: Affluent, Mature Base Near Chicago

The village's local economy will benefit over the long term from its location adjacent to the city of Chicago and elevated resident income indices. The village of Oak Park is located approximately 10 miles west of downtown Chicago. From 2011 to 2016 the village's tax base declined by 28% following the most recent economic downturn. Despite recent depreciation, the tax base remains large at \$4.0 billion. The village has received preliminary tax base figures for 2016 that reflect tax base growth of 4%. The triennial reassessment is set for 2017 and officials anticipate additional growth of 20 to 25%. In contrast to other mature inner ring suburbs, the village continues to benefit from commercial, residential and mixed use development in its downtown area. The village's principal employers include West Suburban Hospital Medical Center (1,341) and Rush Oak Park Hospital (980). Rush Oak Park Hospital is also the village's largest taxpayer at 0.8% of taxable value and recently announced a \$23 million expansion of its current facilities. At 3.5%

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as of April 2017, the village's unemployment levels are lower than state and national figures of 4.4% and 4.1% respectively. Resident income levels are elevated at 172.6% of the national median.

### **Financial Operations and Reserves: Despite Improvements, Operating Liquidity Remains Somewhat Limited**

Despite operational improvements, the village's financial reserves will remain limited relative to similarly rated entities. The village closed fiscal 2016 with a general fund operating surplus of \$841,000. When incorporating transfers and proceeds from the sale of village assets, available general fund reserves increased by \$3.2 to their current \$8.5 million and 15.5% of general fund revenue. General fund reserves have improved in recent years, due to the repayment of an interfund loans from the village's parking enterprise and significant reductions in operating expenditures including reductions in staffing. At its peak, in fiscal 2007, the general fund was owed \$10.4 million from the Parking Fund. Four years prior, in fiscal 2012, available general fund reserves were \$2.9 million and 6% of revenues. At the close of fiscal 2016, available operating fund (combined general and debt service funds) reserves totaled \$10.8 million, or an adequate 18% of revenues. For fiscal 2017, the village has conservatively budgeted for balanced operations and reports year-to-date, operations are tracking to budget.

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. Therefore, the sales tax rating is capped at the village's GO rating. The rating on the sales tax debt also considers the ample debt service coverage provided by pledged revenues (maximum annual debt service coverage is 5.23 times) and a satisfactory 1.5 times additional bonds debt.

### **LIQUIDITY**

Operating fund liquidity remains somewhat limited compared to similarly rated entities, though the village maintains alternate liquidity across a variety of funds. At the close of fiscal 2016, net cash across village operating funds totaled \$6.8 million and a limited 11.5% of operating revenue. Operating cash is lower than the fund balance due to interfund receivables of \$11.2 million and \$10.5 million within the general and debt service funds, respectively. Officials report the borrowing is a result of the village's practice of pooling cash across funds and interfund loans are generally repaid throughout the course of the following fiscal year. 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. Across all governmental funds, available cash totaled \$30.0 million and a healthy 39% of governmental revenues. Net of \$9.3 million and \$5.6 million within the village's Madison Street TIF and non-major capital project funds available governmental liquidity was \$14.4 million and 19% of governmental revenues.

### **Debt and Pensions: Debt and Pension Burdens are Key Credit Weaknesses**

Oak Park's debt and pension leverage is above average. At the close of fiscal 2016, net of debt expected to be repaid by the village's water and sewer enterprise, the village's direct debt burden was equivalent to 2.5% of full valuation and 1.7 times operating revenue. The village's overall debt burden is also slightly elevated at 5.4% of full valuation and reflects the applicable debt issued by overlapping units of local government. The village's capital improvement plan calls for \$10 million in additional borrowing in fiscal 2017.

Oak Park's pension burden is high. As of fiscal 2016, the village's three-year average Moody's adjusted net pension liability (ANPL), our measure of a local government's pension burden, was 5.0 times operating revenue and 7.4% of full valuation. Four years prior in fiscal 2012, the village's three-year average ANPL was 3.4 times operating revenue and 3.5% of full valuation. Fixed costs consisting of debt service, pension contributions and other post employment benefit (OPEB) expenditures were \$17.9 million in fiscal 2016 or a high 30% of operating revenue. The village's fixed cost burden will continue to grow as pension contributions increase.

### **DEBT STRUCTURE**

The village's long-term debt profile consists of \$96.4 million of outstanding GOULT bonds and \$9.2 million in sales tax revenue bonds. Principal retirement of the village's outstanding long-term debt is average with 60% of debt retired within ten years.

### **DEBT-RELATED DERIVATIVES**

The village has no derivative exposure.

### **PENSIONS AND OPEB**

Oak Park manages two single-employer, defined benefit pension plans and is also a member of the Illinois Municipal Retirement Fund (IMRF), a defined benefit, multi-employer agent plan. The Moody's ANPL referenced above reflects the use of a market-based discount

rate to value the plans' liabilities. Key sources of growth in the village's pension burden in recent years include investment returns that have fallen short of plan assumptions, changes in mortality assumptions, and village contributions that, while closely conforming with actuarially determined contributions, have not been sufficient to fully cover annual interest accruals on accumulated unfunded liabilities. Net of enterprise support, Oak Park's fiscal 2016 pension contributions were \$10 million and a high 16.8% of operating revenue. The village's public safety plans are by far the largest of its plans, and Oak Park contributed \$8.5 million to the public safety plans in fiscal 2016. This public safety plan contribution was \$2.8 million less than the amount needed for both plans to tread water, or 3.7% of operating revenue. Public safety plan contributions are expected to increase by \$2.2 million for fiscal 2017. The village's two single employer plans use a more conservative discount rate of 6.5% and an assumed rate of return of 6.75%. This is lower than other local governments and a more sound budgetary practice. Still, like other local governments, the village is exposed to the risk of a growing pension burden should investment returns fall short of plan assumptions.

Unfunded OPEB liabilities do not pose a significant credit challenge to the village. Oak Park has a modest OPEB unfunded actuarial accrued liability of \$10.4 million and 0.2 times operating revenues. The village's pay-go contribution in fiscal 2016 was equivalent to 0.9% of revenue.

### **Management and Governance: Moderate Institutional Framework; Home Rule Authority Increases Flexibility**

Illinois cities have an Institutional Framework score of A, or moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Revenue-raising ability is moderate overall but varies considerably. Home rule entities, like Oak Park, have substantial revenue-raising authority. The village can raise various local taxes and fees without approval by voters or the state. Expenditures are moderately predictable but cities have limited ability to reduce them given costs for pension benefits that enjoy strong constitutional protections. Revenue predictability is moderate, with varying dependence on property, sales, and state-distributed income taxes.

Given the state's fiscal stress, cuts in local government revenue sharing, particularly allocation of state income tax revenue, remains a potential operating challenge. State shared income tax revenues accounted for 8% of operating fund revenues in fiscal 2016. 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 village's GO debt is secured by a dedicated property tax levy, unlimited as to rate and amount.

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

### **Use of Proceeds**

Not applicable.

### **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 the general obligation rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the special tax rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of these methodologies.

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