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CREDIT OPINION
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Oak Park (Village of) IL

Update to credit analysis

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Summary

The Village of Oak Park, IL's (A1) credit profile will continue to benefit from its large tax base adjacent to Chicago (Ba1 stable), high resident income and substantial revenue raising authority as a State of Illinois (Baa3 stable) home rule unit of government. These credit strengths are balanced against an elevated pension burden and high fixed costs to service debt, pension and other post employment benefit (OPEB) liabilities that consume around 30% of revenues annually.

The village's mature tax base is largely residential with a small commercial sector (9% of full valuation). Full valuation had been growing over the last several years driven by appreciation of existing residential property, and some new development and redevelopment. Additional growth had been expected because of recent residential and mixed use developments and a reassessment, but may be moderated by the coronavirus pandemic. Resident income indices are high compared to the nation supported by a swath of well paying jobs throughout the metro area. Unemployment has spiked across the country as a result of the coronavirus. As of June 2020, the village's unemployment rate was on par with the state's figure and slightly higher than the national average.

The village's financial position has steadily improved over the last several years and is expected to remain adequate despite expectations for a coronavirus driven reserve draw in fiscal 2020. At the close of fiscal 2019, operating reserves had improved to nearly 25% of operating revenue. Despite substantial mid-year adjustments to expenditures, disruptions to economically sensitive revenue are driving a projected $3 million to $5 million in reserves. If the draw is fully realized, reserves would still remain above where they were a couple of years ago. The village had originally planned for economically sensitive revenue to decline 25% to 50%, but subsequently revised the estimates based on actual receipts and growth in use taxes generated from online sales, to a 15% to 25% decline compared with the original budget. The projections are conservative given that from May through July receipts in fiscal 2020 compared with fiscal 2019 have thus far declined by 11%. Beyond fiscal 2020, the village intends to balance the budget with additional expense cuts if the revenue environment does not improve. Management has identified specific expenditure reductions that could be implemented even under very stressed revenue scenarios. Operations and liquidity remain strong within the water and sewer enterprises, while the parking enterprise is expecting an operating deficit of approximately $1 million because of lower parking volume. Across all enterprises there is a strong cushion with net cash totaling $15.2 million, a sound 291 days of operations in fiscal 2019.

The village sizes its public safety pension plan contributions to achieve a 100% funded ratio by 2040, a target that slightly exceed state minimum contributions. Still in fiscal 2019, fire and police pension plan contributions were equivalent to 91% and 95% of tread water[1], respectively. Across those two plans the treadwater shortfall was less than $1 million, equal to approximately 1% of revenue. The village uses a slightly lower discount rate than most local governments at 6.75%. All else equal, a lower discount increases the amount a local government would need to contribute to reach tread water. The village's debt burden is moderate and there are no material borrowings planned over the next several years.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for the village. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the city changes, we will update our opinion at that time.

Credit strengths

» Large tax base near Chicago

» Above average resident income and wealth

» Strong revenue raising flexibility as an Illinois home rule unit of government

Credit challenges

» High and growing pension burden

» Exposure to economically sensitive revenues, with recession driven declines causing budget gaps

Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

» Sustained improvement in operating reserves and liquidity

» Moderation of long term leverage and fixed costs

Factors that could lead to a downgrade

» Growth in leverage or fixed costs

» Narrowing of fund balance or operating liquidity beyond current expectations for fiscal 2020

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1
Key Indicators for Oak Park (Village of) IL

	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$4,153,171	$4,007,332	$4,164,125	$4,972,301	$4,782,301
Population	52,080	51,989	52,229	52,225	51,878
Full Value Per Capita	$79,746	$77,080	$79,728	$95,209	$92,184
Median Family Income (% of US Median)	172.6%	181.7%	182.4%	181.5%	181.5%
Finances					
Operating Revenue ($000)	$55,728	$59,687	$62,368	$67,339	$69,834
Fund Balance ($000)	$5,865	$10,768	$13,927	$17,371	$16,870
Cash Balance ($000)	$1,289	$6,836	$11,968	$12,064	$15,194
Fund Balance as a % of Revenues	10.5%	18.0%	22.3%	25.8%	24.2%
Cash Balance as a % of Revenues	2.3%	11.5%	19.2%	17.9%	21.8%
Debt/Pensions					
Net Direct Debt ($000)	$80,822	$101,597	$108,472	$97,180	$87,506
3-Year Average of Moody's ANPL ($000)	$255,657	$297,751	$321,759	$315,815	$327,505
Net Direct Debt / Full Value (%)	1.9%	2.5%	2.6%	2.0%	1.8%
Net Direct Debt / Operating Revenues (x)	1.5x	1.7x	1.7x	1.4x	1.3x
Moody's - ANPL (3-yr average) to Full Value (%)	6.2%	7.4%	7.7%	6.4%	6.8%
Moody's - ANPL (3-yr average) to Revenues (x)	4.6x	5.0x	5.2x	4.7x	4.7x

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

Profile

The Village of Oak Park lies along Chicago's western border and is home to an estimated population of 52,100. The village's provides a variety of services to its residents including water and sewer services and public safety.

Legal security

The district's GOULT debt, including the current issuances are secured by an all available funds pledge and a dedicated property tax levy unlimited as to rate or amount.

ESG considerations

Environmental

Environmental considerations are not material to the district's credit profile. According to data of Moody's affiliate, Four Twenty Seven, Cook County is at relatively high risk for extreme rainfall and heat stress compared to counties nationally. One of the primary impacts of heat is on agricultural production, which is not an economic driver for the village. Cook County also has relatively high exposure to extreme rainfall events compared to counties nationally. Flooding throughout the county is expected to be relieved by the Tunnel and Reservoir Plan (TARP) currently underway through the Metropolitan Water Reclamation District of Greater Chicago (Aa2 stable).

Social

Social considerations for the village including a large tax base with high resident income and low poverty within the Chicago metropolitan region. In response to the coronavirus pandemic, the village made mid year expenditure reductions approximating $17 million or nearly 25% of the village's total budget. Economically sensitive revenue including but not limited to sales taxes, state shared income taxes and licenses and permits which accounts for roughly half of village operating revenue and had been growing steadily year over year. However, corona driven declines, which had been projected as severe as 25% to 50% declines are now expected to be down closer to 15% to 25%. Comparisons of sales tax receipts over the last three months compared to the same period over the prior year depicts declines in sales tax receipts of a more moderate 11%.

Social factors are incorporated into the district's rating by way of wealth (full value per capita) and income (median family income) metrics. Resident income indices are just below the national median and have increased each of the last three years. We consider the coronavirus outbreak to represent a social risk under our ESG framework, given the substantial implications for public health and safety.

Governance

Illinois cities have an institutional framework score [2] of "A", which is moderate. Revenue-raising ability is moderate overall but varies considerably. Non-home rule entities are subject to tax rate limitations. In addition, total operating tax yield for entities subject to the Property Extension Limitation Law (PTELL) is capped to the lesser of 5% or CPI growth, plus new construction. Home rule entities like Oak Park have much greater legal flexibility than the rest of the sector with substantial revenue-raising authority.

Revenue predictability is moderate, with varying dependence on property, sales, and state-distributed income taxes. Expenditures are moderately predictable but cities have limited ability to reduce them given strong public sector unions and pension benefits that enjoy strong constitutional protections. Fixed costs are driven mainly by debt service and employer pension contributions. For single employer public safety plans, the State of Illinois requires most entities to make annual pension contributions that cover current benefit accruals, plus an amount designed to achieve a 90% funded ratio by 2040. The village currently targets a 100% funded ratio by 2040. The village adheres to its fund balance policy that calls for the maintenance of reserves between 10% and 20% of annual operating revenue.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Oak Park (Village of) IL

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$5,082,497	Aa
Full Value Per Capita	$97,970	Aa
Median Family Income (% of US Median)	181.5%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	24.2%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	15.6%	Aa
Cash Balance as a % of Revenues	21.8%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	21.7%	Aa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Baa
Notching Factors:[2]		
Other Scorecard Adjustment Related to Management: home rule unit of local government		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	6.4%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	4.7x	Baa
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	A1

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016.
[3] Standardized adjustments are outlined in the latest GO Methodology Scorecard Inputs publication.
Source: Issuer's audited financial statements; US Census Bureau

Endnotes

1 We measure the extent to which to which contributions may be sufficient to keep unfunded liabilities from rising under plan assumptions with our "tread water" indicator. Contributions that tread water, using the local government pension plans' own discount rate assumptions, will keep unfunded pension liabilities from growing as long as other plan assumptions hold.

2 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (July 2020) methodology report for more details.

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