S&P Global
Ratings

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Summary:

Oak Lawn, Illinois; General Obligation

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Credit Profile		
US$20.5 mil taxable GO rfdg bnds ser 2017A due 12/01/2036		
Long Term Rating	A+/Stable	New
US$2.0 mil GO rfdg bnds ser 2017B due 12/01/2036		
Long Term Rating	A+/Stable	New
Oak Lawn Vill GO		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to the village of Oak Lawn, Ill.'s series 2017A taxable general obligation (GO) refunding bonds and series 2017B GO refunding bonds. At the same time, S&P Global Ratings affirmed its 'A+' long-term rating and underlying rating (SPUR) on the village's existing GO debt. The outlook is stable.

The village's series 2017 GO refunding bonds are secured by its unlimited tax ad valorem GO pledge. The bonds are being issued to currently refund the village's outstanding GO loan dated Aug. 16, 2012, and to repay certain funds advanced from the village's general fund.

The rating reflects our assessment of the following factors for the village:

- Adequate economy, with projected per capita effective buying income at 97.5% and market value per capita of $53,727, that is gaining advantage from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Very weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2016;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2016 of 4.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 13.0% of total governmental fund expenditures and 114.6% of governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 11.4% of expenditures and net direct debt that is 116.8% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Adequate economy

We consider Oak Lawn's economy adequate. The village, with an estimated population of 57,338, is located in Cook County in the Chicago-Naperville-Elgin, Ill.-Ind.-Wis. MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 97.5% of the national level and per capita market value of $53,727. Overall, the village's market value grew by 4.4% over the past year to $3.1 billion in 2017. The county unemployment rate was 6.2% in 2016.

The village is located 15 miles southwest of downtown Chicago and benefits from access to the broad and diverse Chicago-area economy. After experiencing significant equalized assessed valuation declines in recent years, the village reported a 4.4% increase in 2016. The village's property composition is primarily residential (72.9%), followed by commercial property (25.5%). The largest employers in the village include Advocate Christ Medical Center (6,500 employees) and Community High School District 218 (1,370). We do not anticipate our view of the village's economy to change in the near term.

Adequate management

We view the village's management as adequate, with standard financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

In developing revenue and expenditure assumptions, the village uses data from outside sources such as the Illinois Municipal League. The management team also provides quarterly budget-to-actual updates to the village board. While the village is currently developing a long-term financial plan, it does not have a formal long-term financial plan in place. The village has a five-year capital plan, but the plan does not provide estimated funding sources for later years. The village has investment management policies for its police and fire pension plan and for other funds it maintains. In addition, the village provides quarterly updates regarding holdings and earnings to its village board. The village follows state statutes regarding debt management. The village maintains a fund balance target of 10% of general fund expenditures, which it is currently not meeting.

Very weak budgetary performance

Oak Lawn's budgetary performance is very weak in our opinion. The village had operating deficits of 3.1% of expenditures in the general fund and of 3.2% across all governmental funds in fiscal 2016. Weakening our view of Oak Lawn's budgetary performance is the village's deferral of significant expenditures, which we think inflates the budgetary result ratios.

Our analysis of village's budgetary performance reflects the adjustment of recurring transfers involving the general fund and one-time expenditures. Contributing to the village's very weak budgetary performance is the village's deferral of significant pension expenses, which has artificially improved budgetary performance. In addition, fiscal 2016 performance was negatively affected by a large amount of overtime paid for the village's fire department, as the village had budgeted for $2.0 million for this expense but ended up having to spend $2.6 million.

For fiscal 2017, the village has adopted a break-even budget in its general fund. The village increased its home rule utility tax which will help support street improvement projects. The village estimates that this will generate an additional $2.5 million in revenues, and will enable the village to remove certain capital expenditures out of its general fund.

Adequate budgetary flexibility

Oak Lawn's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2016 of 4.8% of operating expenditures, or $2.6 million.

We have adjusted the village's available general fund balance by approximately $1.8 million to reflect unpaid receivables owed to the general fund that have yet to be paid. The village intends to use bond proceeds from the current offering to repay the general fund $1.9 million that it is owed, which will improve the village's reserve level in fiscal 2017.

Very strong liquidity

In our opinion, Oak Lawn's liquidity is very strong, with total government available cash at 13.0% of total governmental fund expenditures and 114.6% of governmental debt service in 2016. In our view, the village has strong access to external liquidity if necessary.

The village's total available cash and cash equivalent position was $8.8 million at fiscal year-end 2016. We view the village's access to external liquidity to be strong, as it has issued debt regularly in recent years. The village has access to a $5 million line of credit, which it has not had to utilize. The village has a promissory note with a local bank upon which $19.3 million is still outstanding and is being refunded in full with this current issuance. In addition, the village has approximately $2.8 million in bank loans outstanding for capital projects, which we do not consider a nonremote contingent liability risk.

Very weak debt and contingent liability profile

In our view, Oak Lawn's debt and contingent liability profile is very weak. Total governmental fund debt service is 11.4% of total governmental fund expenditures, and net direct debt is 116.8% of total governmental fund revenue.

The village does not have any additional new money GO debt plans within the next two years. In 2014, the village's water and sewer system entered into a line of credit totaling $20 million with a local bank; indebtedness owed pursuant to the line of credit is structured as a revenue bond, and amounts owed pursuant to the bonds are not payable from GO taxes.

In our opinion, a credit weakness is Oak Lawn's large pension and OPEB obligation. Oak Lawn's combined required pension and actual OPEB contributions totaled 20.0% of total governmental fund expenditures in 2016. Of that amount, 18.2% represented required contributions to pension obligations, and 1.8% represented OPEB payments. The village made 59% of its annual required pension contribution in 2016. The funded ratio of the largest pension plan is 49.2%.

The village has adopted Governmental Accounting Standards Board (GASB) Statement No. 67 and 68 regarding the accounting of pension and OPEB liabilities. The village's Police Pension Fund and Firefighters' Fund are 49.2% and 50.7% funded, with a net pension liability of $73.3 million and $67.8 million, respectively. The village has adopted a pension funding policy which commits it to higher contributions in coming years. We do not expect the village's debt and contingent liability score to improve in the near term, given the low pension funding levels for the police and fire funds.

Strong institutional framework

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

Outlook

The stable outlook reflects expectation that the village will maintain its very strong liquidity levels and continue to benefit from its access to the Chicago MSA. We do not expect to change the rating over the two-year outlook horizon.

Upside scenario

Should the village achieve better budgetary performance, improve its debt and contingent liabilities profile, and achieve and sustain better economic indicators, a higher rating is possible.

Downside scenario

If the village were to experience a weakening in budgetary flexibility, a lower rating is possible. In addition, if the village is unable to address the funding deficiencies of its pension plans, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 23, 2017)		
Oak Lawn Vill GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Oak Lawn Vill GO (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.