

## Summary:

# South Chicago Heights Village, Illinois; General Obligation

## Credit Profile

US\$2.5 mil GO bnds ser 2015 dtd 02/09/2015 due 12/01/2034

*Long Term Rating*

A/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'A' long-term rating to the South Chicago Heights Village, Ill.'s series 2015 general obligation (GO) bonds. The outlook is stable.

The bonds are secured by the village's unlimited tax GO pledge and were authorized by referendum on March 18, 2014. The bond proceeds are being used for construction of a new public safety facility.

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

- Weak economy, with access to the broad and diverse Chicago metropolitan economy,
- Strong budgetary flexibility;
- Strong budgetary performance;
- Very strong liquidity that provides very strong cash levels to cover both debt service and expenditures;
- Adequate management conditions with "standard" financial management practices;
- Weak debt and contingent liabilities position; and
- Strong institutional framework score.

### Weak economy

We consider South Chicago Heights' economy to be weak. South Chicago Heights is approximately 28 miles south of downtown Chicago. Interstate 80 is located approximately 6 miles north of the village, and Interstate 57 is approximately 5 miles west. Residents of the village generally work in the Chicago metropolitan area. Major employers within the village include a plastic molding company (230 employees), a grocery store (200 employees), and an exhaust systems company (185 employees). The village's population is 4,192, and its projected per capita effective buying income is 61.5% of the U.S. average. Per capita market value for the village was \$46,344 for 2014. Equalized assessed valuation (EAV) for the village has declined by approximately 14% during the past two years. The village's top 10 taxpayers represent 15% of EAV.

### Strong budgetary flexibility

In our opinion, the village's budgetary flexibility is strong, with its audited fiscal 2013 (year ended Dec. 31, 2013) available general fund balance at approximately 12% of general fund expenditures or \$489,000. For fiscal 2014, available general fund reserves are expected to increase slightly after an anticipated surplus of \$20,000. In 2015, the village expects to draw down approximately \$100,000 from its general fund to purchase vehicles, leaving a projected

available fund balance at fiscal year-end 2015 of 9.4% or \$403,000. We consider the village's fund balance to be low on a nominal basis.

### **Strong budgetary performance**

The village's budgetary performance has been strong overall in our view. The municipality posted a surplus of 5.3% in the general fund in fiscal 2013 and an 11.8% surplus in total governmental funds. For fiscal year 2014, the district expects another nearly \$20,000 or 0.5% surplus in the general fund. The surplus is partly attributable to management's decision to not spend funds on certain budgeted capital projects. Management is projecting a \$100,000 drawdown from the general fund in 2015 for vehicle purchases, which would represent a 2.5% deficit in the general fund.

### **Very strong liquidity**

Supporting the village's finances is liquidity that we consider very strong, with total government available cash and cash equivalents at more than 52% of total governmental fund expenditures and more than 37x debt service for audited fiscal 2013. We believe the village has strong access to external liquidity.

### **Adequate management conditions**

We consider the village's management conditions to be adequate, with standard financial management practices under our financial management assessment (FMA). An FMA of "standard" indicates our view that the district maintains adequate policies in some, but not all, key areas. Among other policies, the village provides monthly budget-to-actual reports to the board. The village also uses zero-based budgeting in preparing its budgets.

### **Weak debt and contingent liability profile**

In our opinion, the village's debt and contingent liability profile is weak, with total governmental fund debt service at 1.4% of total governmental fund expenditures and with net direct debt at 72.9% of total governmental fund revenues. Amortization of the village's debt is average, with 60% of the village's debt due to be retired within 10 years. Overall net debt as a percentage of market value is 5.1%. The district does not have any additional debt plans within the next two years.

The village contributes to three defined benefit pension plans: the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer public employee retirement system, the Police Pension Fund, and the Firefighter's Pension Fund, which are both single-employer pensions. The village contributed 99% of its annual pension cost (APC) to the IMRF in 2013 and 91% of its APC to the Police Pension Fund. The village contributed 139% of its APC to the Firefighters' Pension Fund, which has one member. The IMRF is currently funded at a rate of 63%, the Police Pension Fund at a rate of 69.5%, and the Firefighters' Pension Fund at a 24% rate. In 2013, the village contributed 28.7% of its annual OPEB cost, which is funded on a pay-as-you go basis. The combined pension cost and OPEB pay-as-you-go costs for the village were 7.1% of total governmental fund expenditures in 2013. We consider the village's pension and OPEB burden to be high.

### **Strong institutional framework**

The institutional framework score for Illinois non-home rule villages subject to the property tax extension limitation law is "strong." See the Institutional Framework score for Illinois.

## **Outlook**

The stable outlook on the rating reflects our view of the village's strong budgetary performance and very strong liquidity. We do not expect to lower the rating during the next two years because we believe the village will maintain at least adequate budgetary performance. However, should the village experience worse budgetary flexibility than anticipated, we could lower the rating. Alternatively, a raised rating is possible if the village demonstrates very strong budgetary flexibility or is able to build its fund balance to a level that we consider very strong. Precluding a higher rating at the present time is our view of the village's weak economic characteristics and low nominal fund balance.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
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