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Summary:

Countryside, Illinois; General Obligation

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Credit Profile		
US$9.165 mil GO bnds ser 2018 due 01/01/2043		
Long Term Rating	AA/Stable	New
Countryside GO bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating to Countryside, Ill.'s series 2018 general obligation (GO) bonds and affirmed its 'AA' rating on the city's existing GO debt. The outlook is stable.

The city's unlimited-tax GO pledge secures the bonds.

Officials intend to use series 2018 bond proceeds to fund the construction of a new city hall and police facility.

The rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 75% of operating expenditures;
- Very strong liquidity, with total government available cash at 88.5% of total governmental fund expenditures and 5.8x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 15.2% of expenditures and net direct debt that is 272.4% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Strong economy

We consider Countryside's economy strong. The city, with an estimated population of 5,716, is in Cook County in the Chicago-Naperville-Elgin MSA, which we consider broad and diverse. It has a projected per capita effective buying income of 105.1% of the national level and per capita market value of $162,748. Overall, market value has grown by 14.6% during the past fiscal year to $930.3 million in fiscal 2019. The county unemployment rate was 5.2% in 2017.

Countryside is approximately 15 miles from downtown Chicago with direct access to interstates 55 and 294. After declining significantly due to the lingering effects of the recession on property values from levy years 2012-2015, equalized assessed valuation (EAV) increased by 6% in levy year 2016 and 16% in levy year 2017. Due to its size, the city is home to a significant number of retailers, reflected in its property tax base composition. Commercial properties account for 46.2% of total EAV, followed by residential housing at 43.6%. The 10 leading taxpayers account for 18% of total EAV, which is diverse. Officials expect EAV to increase further next year.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

When developing its budget, Countryside uses outside sources, such as the Illinois Municipal League, to evaluate expected income tax, use tax, and motor fuel tax revenue and other revenue sources. In addition, the city provides reports on budget-to-actual performance to its city council in a monthly treasurer's report; the council can amend the budget at any time.

With regard to long-term financial planning, management maintains a detailed forecast of general fund revenue and expenditures four years beyond the budget year that it updates annually. The city also uses a budget plus four-year capital improvement plan it updates annually. Management has adopted an investment management policy, and it provides quarterly updates regarding investment performance to the council.

Countryside maintains a debt management policy that governs debt issuance but lacks detailed and specific quantitative components regarding debt management. The city also maintains a formal fund balance policy that requires it to maintain, at least, 50% of expenditures in the general fund, which it has complied with historically; management has chosen this level due to its relatively high reliance on sales tax revenue, a potentially volatile revenue stream.

Strong budgetary performance

Countryside's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 1.5% of expenditures and balanced results across all governmental funds of 0.3% of expenditures in fiscal 2017. General fund operating results have been stable during the past three fiscal years, with results of 3% of expenditures in fiscal 2016 and 2.9% in fiscal 2015.

Management has reported general fund surpluses during the past three audited fiscal years, ranging from 1.5%-3% of expenditures. Total governmental funds performance is mixed with primarily deficit results recently. Our review of Countryside's budgetary performance for fiscal year-end April 30, 2017, reflects the adjustment of a one-time expenditure of $1.6 million in total governmental funds associated with the purchase of property for the new city hall and police station project.

For fiscal 2018, unaudited results show another general fund surplus of 4.8% of expenditures due to stronger-than-budgeted sales tax receipts. Sales tax revenue accounts for approximately 67% of general fund revenue. Despite this reliance on a traditionally volatile revenue stream, the city has maintained strong budgetary performance recently, buoyed by a strengthening local economy. In addition, management typically budgets for flat sales tax revenue year to year. The strength of the sales tax revenue stream and other sources has allowed Countryside to not levy a property tax recently.

Very strong budgetary flexibility

Countryside's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 75% of operating expenditures, or $9.6 million. We expect available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city has advanced approximately $7.7 million into its commercial redevelopment tax-increment financing fund, which available fund balance does not include, from its general fund. Despite this, management has maintained healthy reserves recently. Due to recent and expected budgetary performance, we believe budgetary flexibility will likely remain very strong during the next few fiscal years.

Very strong liquidity

In our opinion, Countryside's liquidity is very strong, with total government available cash at 88.5% of total governmental fund expenditures and 5.8x governmental debt service in fiscal 2017. In our view, the city has strong access to external liquidity if necessary.

At fiscal year-end 2017, Countryside held $12.3 million in cash and cash equivalents across all funds. We consider its access to external liquidity strong because management has issued debt through the capital markets during the past 20 years. Countryside invests primarily in U.S. agency funds, municipal obligations, and other investments we do not consider aggressive. We do not expect available cash to weaken during the next few fiscal years.

Very weak debt and contingent liability profile

In our view, Countryside's debt and contingent liability profile is very weak. Total governmental fund debt service is 15.2% of total governmental fund expenditures, and net direct debt is 272.4% of total governmental fund revenue.

The city does not have any variable-rate or direct-purchase debt. Nor does it currently have any additional debt plans.

In our opinion, Countryside's large pension and OPEB obligation, without a plan in place we think will sufficiently address it, is a credit weakness. Countryside's combined required pension and actual OPEB contribution totaled 10.5% of total governmental fund expenditures in fiscal 2017. Of that amount, 9.7% represented required contributions to pension obligations and 0.8% represented OPEB payments. The city made 100% of its annual required pension contribution in fiscal 2017. The funded ratio of the largest pension plan is 65%.

Countryside has adopted Governmental Accounting Standards Board Statement No. 68, regarding the accounting of pension liabilities. The city participates in two major pension plans: the Countryside Police Pension Fund, its largest plan, and the Illinois Municipal Retirement Fund (IMRF). The police pension plan is a defined-benefit, single-employer pension plan.

At April 30, 2017, the city's fiduciary net position of the police plan, as a percentage of total pension liability, was 65% with a net pension liability of $10.6 million. The city has been involved in litigation with Countryside Police Pension Fund regarding the calculation of a longevity benefit as a pensionable salary. In March 2017, the Circuit Court of Cook County ruled in the city's favor, leading to a reduced recalculation of pensionable salaries in the most recent actuarial report. This led to an improvement of the city's net position, as a percentage of total pension liability, to 65% from 43.5%. The police pension fund has appealed the court's ruling. Despite improved funding for the police pension plan, we view the plan as significantly underfunded.

The city also participates in two benefit plans under IMRF, the regular plan and the sheriff's law enforcement plan. The city's net fiduciary position of the IMRF regular plan, as a percentage of total pension liability, was 83.6% in 2017.

In addition, Countryside administers a single-employer, defined-benefit health care plan that provides health insurance contributions for eligible retirees and their spouses. The city provides a maximum $350 monthly to retirees under the plan until they are eligible for Medicare. Its annual OPEB required contribution was $133,981 in fiscal 2017; the city contributed $112,615 in fiscal 2017.

The city's OPEB plan had an unfunded actuarial accrued liability of $2.2 million at April 30, 2015, the most recent actuarial valuation date.

Strong institutional framework

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

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Countryside's very strong budgetary flexibility and liquidity. We do not expect to change the rating within the next two years. We believe the city's participation in the broad and diverse Chicago MSA provides additional rating support.

Upside scenario

If the city were to demonstrate stronger income and improve its pension profile, coupled with sustaining existing credit factors, we could raise the rating.

Downside scenario

If Countryside were to experience multiple fiscal imbalances, leading to weakened budgetary performance and budgetary flexibility, if it couldn't manage its relatively high dependence on sales tax revenue in its general fund, or if future pension expenditures were to create fiscal stress and weaken budgetary performance, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.