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Summary:

Countryside, Illinois; General Obligation

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Credit Profile		
US$8.93 mil GO bnds ser 2017 due 01/01/2047		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the City of Countryside, Ill.'s series 2017 general obligation (GO) bonds. The outlook is stable.

The series 2017 GO bonds are secured by the city's unlimited-tax GO pledge. The city will use bond proceeds for the construction of a new city hall and police facility.

The 'AA' rating reflects the following characteristics of the city:

- Very 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 a slight operating surplus 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 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 201.7% 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 the obligation; and
- Strong institutional framework score.

Very strong economy

We consider Countryside's economy very strong. The city, with an estimated population of 5,779, is located in Cook County in the Chicago-Naperville-Elgin, Ill.-Ind.-Wis. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 110% of the national level and per capita market value of $140,509. Overall, the city's market value grew by 7.2% over the past year to $812.0 million in 2016. The county unemployment rate was 6.2% in 2016.

The city is located approximately 15 miles from downtown Chicago, with close access to Interstates 55 and 294. After declining significantly due to the lingering effects of the recession on property values from levy years 2012 to 2015, the city's equalized assessed valuation (EAV) increased by 5.9% in 2016. Given its size, the city is home to a significant number of retailers, which is reflected in its tax base composition. The city's tax base comprises commercial properties (46.2% of total EAV), followed by residential housing 43.6%). The city's top 10 taxpayers represent 18.5% of its total

EAV, a level that we consider diverse. Officials indicate that they anticipate another increase in the city's EAV next year.

Strong management

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

In developing its budget, the city uses outside sources such as the Illinois Municipal League to evaluate anticipated income tax, use tax, motor fuel tax, and other revenue sources. In addition, the city provides monthly budget-to-actual performance to its council in a monthly treasurer's report, and can amend the budget at any time. With regard to long-term financial planning, the city maintains a detailed forecast of general fund revenues and expenditures that goes out four years beyond the budget year and is updated annually. The city also utilizes a budget-plus-four-year capital improvement plan, which is also updated annually. The city has adopted an investment management policy, and it provides quarterly updates regarding investment holdings and earnings. The city maintains a debt management policy that governs its 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, with which it is in compliance. The city has chosen this level of reserves due to its relatively high reliance on sales tax revenues, 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 slight surplus results across all governmental funds of 1.1% in fiscal 2017. General fund operating results of the city have been stable over the last three years, with a result of 3.0% in 2016 and a result of 2.9% in 2015.

The city has reported surpluses in the general fund the past three audited fiscal years, ranging from 2.9% to 8.6% of expenditures during this period. Total governmental funds performance is mixed, with primarily deficit results in recent years. Our review of the city's budgetary performance in fiscal 2017 (year ended April 30) reflects the adjustment of a one-time expenditure of $1.6 million in total governmental funds expenditures associated with the purchase of property for the new city hall/police station project. The city's general fund revenues are highly dependent on sales tax revenues, which comprise approximately 67% of general fund revenues. Despite this reliance on a traditionally volatile revenue stream, the city has maintained strong budgetary performance in recent years, buoyed by a strengthening local economic base. The strength of the sales tax revenue stream and other sources have enabled it to not have to levy a property tax in recent years.

For fiscal 2017, the final audit indicates a surplus of $193,185 in the general fund, and the city forecasts a similar, $200,000 general fund surplus in 2018. In previous years, the city has advanced funds from its general fund to its commercial redevelopment tax increment fund (TIF), which has struggled to generate increment. The city plans to have the TIF repay the general fund at an undetermined future date.

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 the 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 in funds from its general fund to its commercial redevelopment TIF, which is not included in the available fund balance. Despite this, the city has maintained healthy levels of reserves in recent years. Given recent and expected budgetary performance, we anticipate its budgetary flexibility to remain very strong in the near term.

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 2017. In our view, the city has strong access to external liquidity if necessary.

At fiscal year-end 2017, the city held $12.3 million in cash and cash equivalents across all of its funds. We consider its access to external liquidity to be strong, as it has issued debt through the capital markets within the last twenty years. The city invests primarily in U.S. agency funds, municipal obligations, and other investments that we do not consider aggressive. We do not anticipate a weakening of its available cash position during the near term.

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 201.7% of total governmental fund revenue.

The city plans to issue an additional $10 million in new money debt within the next year as part of the final phase of the city hall project. The city is not a party to any variable-rate or direct purchase debt.

In our opinion, a credit weakness is Countryside's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Countryside's combined required pension and actual OPEB contributions totaled 10.5% of total governmental fund expenditures in 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 2017. The funded ratio of the largest pension plan is 65%.

The city has adopted Governmental Accounting Standards Board Statement No. 68, regarding the accounting of pension liabilities. The city participates in two major pension plans: the Police Pension Plan, its largest plan, and the Illinois Municipal Retirement Fund (IMRF). The Police Pension Plan is a defined benefit single-employer pension plan. As of April 30, 2017, the city's plan fiduciary net position as a percentage of the total pension liability is 65% with a net pension liability of $10.6 million. The city has been involved in litigation with the 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 plan fiduciary net position as percentage of the total pension liability from 43.5% to 65.0%. The police pension fund has appealed the court's ruling. Despite the improvement in the funding level 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 plan net fiduciary position as a percentage of the total pension liability under the IMRF regular plan was 83.6% in 2017.

In addition, the city administers a single-employer defined benefit health care plan, which provides health insurance contributions for eligible retirees and their spouses. The city provides a maximum of $350 per month to retirees under the plan until they are eligible for Medicare. The city's annual OPEB required contribution was $133,981 in fiscal 2017, and the city contributed $112,615 this year. The city's OPEB plan had an unfunded actuarial accrued liability of $2.2 million as of 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 our view of the city's very strong budgetary flexibility and liquidity. We do not anticipate changing the rating within the next two years. The city's participation in the broad and diverse Chicago MSA provides additional support to the rating.

Upside scenario

If the city were to demonstrate stronger income levels and an improved debt and contingent liability profile, as well as sustain its existing credit factors, a higher rating is possible.

Downside scenario

Should the city experience a multiple-year fiscal imbalance leading to weakened budgetary performance and budgetary flexibility, we could lower the rating. In particular, if the city's is unable to manage its relatively high dependence on sales tax revenues in its general fund, the rating could be lowered. Additionally, should the city's future pension expenditures create fiscal stress and weaken the city's budgetary performance, a lower rating is possible.

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