

RatingsDirect®

Summary:

Orland Park Village, Illinois; General Obligation

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Credit Profile

US\$11.395 mil GO bnds ser 2022 due 12/01/2047

Long Term Rating

AA+/Stable

New

Rating Action

S&P Global Ratings assigned its 'AA+' rating to Orland Park, Ill.'s anticipated \$11.395 million series 2022 general obligation (GO) bonds. The outlook is stable.

The GO bonds are secured by the village's full faith and credit unlimited tax GO pledge.

Series 2022 bond proceeds will finance various capital improvements. Village officials expect to issue debt in the near term but have not yet determined how much they will issue at this time.

Credit overview

Orland Park is a village with a significant retail presence situated in the southwest Cook County suburbs. Maintaining a healthy economic base is a key long-term goal, and officials have been working on a variety of economic development projects throughout the village, but a significant multi-phased redevelopment project in a tax increment financing district (TIF) is nearing completion. The village paid for the initial land assemblage, infrastructure, and other economic improvement projects in the TIF with debt, which has contributed to its weak debt profile, as well as interfund loans from its general fund and home rule sales tax fund.

Orland Park's economic base is recovering as the COVID-19 pandemic progresses. Sales tax revenue collections, a key revenue supporting operations, are on the upswing. We anticipate that, despite the planned use of reserves in 2021 and in 2022, the village's budgetary flexibility will remain very strong with general fund reserves remaining above its 25% target.

For our latest U.S. economic forecast, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude", published Nov. 29, 2021, on RatingsDirect.

The rating reflects our view of the village's:

- Stable local economy participating in the broad and diverse Chicago metropolitan statistical area (MSA);
- Balanced financial operations with very strong reserves and liquidity, achieved through conservative revenue assumptions and budget cuts with only a modest use of reserves;
- Good management policies and practices and, as a home rule community, support from a strong institutional framework; and
- Manageable debt and contingent liability position.

Environmental, social, and governance

We analyzed Orland Park's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the village's structural budgetary performance were to weaken and reserves were to fall below those of its similarly rated peers.

Upside scenario

We could raise the rating if economic metrics improved to levels comparable to its higher-rated peers and debt levels moderated, all while the village's available reserve levels are consistently maintained.

Credit Opinion

Resilient and strong economy supported by strong economic development initiatives

Orland Park residents have access to diverse employment opportunities throughout the Chicago MSA. The village is nearly built out and sees its largest gains in equalized AV and market value during triennial revaluations. About two-thirds of the property tax base is residential, and nearly a third of the tax base is commercial.

Given the trend of e-commerce and other market factors, the village has seen its share of turnover in its retail base. However, its vacancy rates overall are low, and the village continues to see redevelopment in and around its malls and strip centers, with a new anchor in its largest mall, and new retail, restaurants and entertainment venues filling in some of the gaps. In addition, one of the major corridors traversing the village's southern boundary includes several auto dealerships that also contribute to its sales tax revenue receipts. Since the inception of the Main Street Triangle tax increment financing (TIF) district in 2004, rental residential housing, a medical center, and retail developments have been built in the TIF district.

Cook County's unemployment rate was 11.1% in 2020, which we consider high and a negative credit factor. However, economic recovery has the county on pace to report an average unemployment rate of 7.9% for 2021.

Strong management in the process of revamping its long-term planning efforts while keeping the budget steady

In developing the budget, management uses three years of historical trends, outside data sources, and line-item estimates. The board receives monthly budget-to-actual reports and the budget can be amended as necessary throughout the year. It maintains a rolling 10-year capital improvement plan that shows both revenue sources and estimated project costs. Village officials paused the formal long-term forecasting process in 2020 and plan to present a revamped format in 2022, along with a new strategic plan. It has an investment management policy and holdings are reported monthly. The village has a new, comprehensive debt management policy which calls for officials to account for various debt ratios when issuing debt, as well as other guidelines regarding permitted types and structures of debt.

Its formal reserve policy is to maintain 20% of general fund expenditures with a goal of 25% for cash-flow and emergency contingencies. It has historically followed this policy.

Management has cyber-mitigation measures in place and has not had any issues with data breaches.

Proactive budget balancing actions result in adequate budgetary performance and preserve very strong reserves and liquidity

Orland Park's general fund relies mainly on state shared sales taxes, which came in at \$19.7 million or 39% in 2020, compared to \$21.0 million in 2019, and on property tax revenue, which was about \$11.0 million (22%). Home rule sales tax revenue, which is locally generated, is reported in a separate special revenue fund. Given the budget's reliance on economically sensitive revenue, officials took action to avert what could have been potentially large deficits.

The budget for fiscal year ended Dec. 31, 2022, calls for a modest use of general fund reserves but they will remain at about 28%, which we consider very strong. The 2021 budget also calls for a modest use of general fund reserves, but it may be offset by positive budget variances. The village's monthly receipts of sales and use tax revenue, which are collected on a three-month lag, are performing better than expected due to the capture of sales tax from internet sales transactions. Officials anticipated sales tax revenue would be flat year-over-year. Officials recently adopted structural expenditure reductions such as staff reorganization, compensation restructuring, and early retirement incentives, and these actions benefitted both the 2020 and the 2021 budgets. Orland Park is a home rule unit of government that is empowered to adjust tax revenue and issue debt without voter referendum and operates within a strong institutional framework. The village's 2021 budget calls for maintaining general fund reserves at 25% of expenditures, in line with its policy.

Fiscal 2020 ended better than expected, reflecting management's efforts to minimize the use of reserves to cover budget gaps; the year ended with a \$4 million surplus and an available fund balance of \$22.9 million or 46% of expenditures. The nonspendable portion of the fund balance, which is not included in our calculation of available reserves, was \$15.7 million in fiscal 2020, which mainly reflects the long-term interfund loan between the general fund and the Main Street Triangle TIF fund. Officials anticipate the loan will be settled when the TIF expires.

Officials held the line on general fund expenditures in 2020, which came in \$5 million below budget. With respect to overall total governmental fund operations, officials had anticipated sales tax revenue and recreation programs would be especially vulnerable to public health and safety measures. While the parks and recreation fund sustained a notable deficit, overall total governmental fund operations remained fairly steady.

We adjusted general fund revenue to reflect annual transfers in from sources such as the motor fuel tax fund, home rule sales tax, and insurance. The general fund regularly transfers funds to the water/sewer fund, recreation and parks fund and the capital improvements fund.

Orland Park has taken steps to reduce direct purchase obligations either through repayment or refinancing with bond proceeds and preserve its very strong liquidity. The village issued GO refunding bonds in 2019 which were privately placed. We note no nonstandard events of default in the documents we were provided.

Manageable debt and contingent liability profile

We have adjusted overlapping debt to reflect the proportionate share of alternate revenue source GO bonds issued by overlapping entities. The village currently has roughly \$65 million of total GO debt outstanding. Officials plan to issue additional debt, but the amount is yet to be determined. However, future debt would be structured in such a way to maintain steady annual debt service.

Pension burden is large, but manageable

We believe that pension and OPEB liabilities represent a modest source of credit pressure, as the village is exposed a large unfunded liability associated with its police pension fund and we anticipate that the costs associated with that plan will continue to increase.

Orland Park participates in three defined benefit plans, as follows:

- Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan providing benefits to regular employees as well as those eligible employees in component units, with a nearly \$11.8 million unfunded liability and 89% funded level;
- Sheriff's Law Enforcement Personnel (SLEP), an agent multiple-employer plan, with a \$58,995 net pension liability and 95% funded;
- Village of Orland Park, IL Police Pension Plan, a single-employer plan with a \$36.8 million unfunded liability that is 75% funded; and
- A single-employer, defined-benefit OPEB plan with a \$16 million liability and 9% funded.

The village targets funding the police pension plan to 100% by fiscal 2040, which is above the state's 90% threshold. However, contributions to the plan were 82% and 104% of our minimum funding progress and static funding metrics, respectively, indicating that it will take time before improvement registers on the funding level of the plan.

We note the added volatility risks in our articles, "Pension Spotlight: Illinois" published March 30, 2021, on RatingsDirect and "Pension Brief: Single-Employer Pension Plans Are Straining Illinois Municipalities' Credit Quality", published July 27, 2021 on RatingsDirect.

Orland Park Village, Ill.: Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Strong economy				
Projected per capita EBI % of U.S.	128.5			
Market value per capita (\$)	128,656			
Population		59,352	59,900	59,409
County unemployment rate (%)	11.1			
Market value (\$000)		7,636,002	6,831,675	6,842,568
Top 10 taxpayers % of taxable value	10.8			
Adequate budgetary performance				
Operating fund result % of expenditures		8.7	6.2	0.8
Total governmental fund result % of expenditures		(5.7)	(3.1)	(4.9)

Orland Park Village, Ill.: Key Credit Metrics (cont.)

	Most recent	Historical information		
		2020	2019	2018
Very strong budgetary flexibility				
Available reserves % of operating expenditures		45.8	36.3	30.9
Total available reserves (\$000)		22,898	18,371	15,465
Very strong liquidity				
Total government cash % of governmental fund expenditures		100.2	82.8	85.2
Total government cash % of governmental fund debt service		1,110.8	642.4	664.5
Strong management				
Financial Management Assessment		Good		
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.0	12.9	12.8
Net direct debt % of governmental fund revenue		116.5		
Overall net debt % of market value		2.6		
Direct debt 10-year amortization (%)		52.0		
Required pension contribution % of governmental fund expenditures		7.4		
OPEB actual contribution % of governmental fund expenditures		0.1		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

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