

RatingsDirect®

Summary:

North Riverside Village, Illinois; General Obligation

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Credit Profile

US\$2.49 mil GO bnds ser 2016 due 10/01/2026

Long Term Rating

A/Stable

New

Rationale

S&P Global Ratings assigned its 'A' rating to the Village of North Riverside, Ill.'s series 2016 general obligation (GO) bonds (alternate revenue source). The outlook is stable.

The bonds are secured by ad valorem taxes of the village for which its full faith and credit have been irrevocably pledged, unlimited as to rate or amount and from all collections distributed by the state of Illinois to the village from retailers' occupation taxes, service occupation taxes, use taxes, and service use taxes. We rate to the GO, which we view as the stronger pledge. The village will not abate the property tax until there are sufficient funds in the bond fund to pay debt service. The bond proceeds will be used for street-related capital projects and safety-related technology and capital projects.

Limiting the rating is what we view as a historical structural imbalance. North Riverside has a particularly large pension liability caused by severe underfunding, as recent as fiscal 2014. If the village had made sufficient pension payments, it would have experienced structural imbalance. Although it has adopted a funding policy and made the full payments in fiscal years 2015 and 2016, we believe the cost to fully fund the pensions may cause financial pressure in the future.

The rating reflects North Riverside's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA), although the local tax base is concentrated;
- Weak management, despite good financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 29% of operating expenditures, but limited capacity to reduce expenditures;
- Very strong liquidity, with total government available cash at 12.9% of total governmental fund expenditures and 2.4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 6.0% of expenditures and net direct debt that is 61.7% 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.

Strong economy

We consider North Riverside's economy strong. The village, with an estimated population of 6,747, is located in Cook County in the Chicago-Naperville-Elgin MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 113% of the national level and per capita market value of \$102,102. Overall, the village's market value fell by 2.6% over the past year to \$688.9 million in levy year 2016. Constraining North Riverside's economy is a concentrated local tax base, with the 10 largest taxpayers accounting for 44.0% of the total tax base. The county unemployment rate was 6.1% in 2015.

The village is 10 miles west of Chicago. With access to interstates 290 and 55 and a commuter rail stop, residents have transportation into Chicago. The village is home to the North Riverside Park Mall, which consists of 130 specialty stores and three major department stores. The mall is 98% occupied and the owner (North Riverside Park Association) is the village's largest taxpayer, representing 19% of collections. Management reports continued industrial development within its limits.

Weak management

We view the village's management as weak, despite "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them regularly.

Negatively affecting the village's management score is the underfunding of the police and fire pensions in fiscal years 2011 through 2014. If the full annual required contribution had been paid, the village would have been structurally imbalanced.

North Riverside uses historical data and outside information to project the revenue and expenditures for the budget. For the sales tax projections, the village has an agreement with the largest sales tax collectors to have access to their sales projections. The board reviews budget-to-actual reports quarterly, at the beginning of the fiscal year then monthly further into the fiscal year. It can amend the budget as necessary. The village's budget includes two additional years of projections for every line item, for every fund. In addition the budget includes five-year capital plan that is detailed, includes funding sources, and is approved by the board yearly. North Riverside has an adopted investment management policy and reports to the board on the holdings and earnings, monthly. The village does not have a debt management policy. It has reserve policies for each fund that are based on cash flow for operations and the ability to respond to emergencies. The village has reserve policies for each fund that outline the reason behind the required funding level; the general fund policy calls for three-to-six months of expenditures, which it is currently achieving.

Adequate budgetary performance

North Riverside's budgetary performance is adequate in our opinion. The village had operating surpluses of 2.8% of expenditures in the general fund and of 3.7% across all governmental funds in fiscal 2016.

Negatively affecting the budgetary performance, in our view, is North Riverside's dependence on sales tax, which is volatile during a recession.

Looking back through fiscal 2012, North Riverside has a history of balanced operations, in both the general fund and

across all governmental funds, although it had underfunded the pensions. Sales tax is the largest single source of revenue for the village, totaling \$9.1 million in fiscal 2015 (46% of all governmental revenues), up 13.6% from the prior year. The village's dependence on the North Riverside Park Mall does lead to volatility in revenues depending on the year to year consumer confidence. To help recover from the prolonged recession and mitigate against drops in sales tax, in 2010, North Riverside initiated a 1% places-for-eating tax on the gross receipts for prepared food. Management attributes the fiscal 2015 (year ended April 30) general fund surplus to continued revenue diversifying, which also included red light cameras. The village nearly made the full actuarially determined pension contribution in fiscal 2015.

The draft fiscal 2016 audit reveals a surplus of \$450,000 in the general fund, while again North Riverside made its actuarially determined pension contribution; management attributes the surplus to continued growth in revenues and restrained expenditures. The fiscal 2016 total government result is a surplus of \$642,000. Management attributed this surplus to the same factors leading to the previous year's surplus.

North Riverside fiscal 2017 budget calls for break-even results in the general fund, but management reports revenues are higher than budgeted. This budget includes the actuarially determined pension contribution. The budget calls a very slight surplus across all governmental funds. We believe that the village's budgetary performance will remain adequate in through fiscal 2017.

Strong budgetary flexibility

North Riverside's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 29% of operating expenditures, or \$4.8 million. Negatively affecting budgetary flexibility, in our view, is North Riverside's limited capacity to reduce expenditures.

In previous years of low revenue environments, the village chose to underfund the pension plans to achieve a balanced budget. Because the village has now adopted a policy to fully fund the pension plans, these costs will be fixed and it has limited capacity to reduce these expenditures.

The village's water fund had a history of low cash and required reoccurring loans from the general fund. North Riverside performed a water study and increased the water rates to an amount that allows the water fund to be operationally balanced. The draft fiscal 2016 audit reveals the due from was down to \$135,000 and management reports it will be fully caught up by the end of fiscal 2017, so we do not view this as a questionable receivable.

Based on the fiscal 2017 budget, we expect the budgetary flexibility to remain strong.

Very strong liquidity

In our opinion, North Riverside's liquidity is very strong, with total government available cash at 12.9% of total governmental fund expenditures and 2.4x governmental debt service in 2015. In our view, the village has strong access to external liquidity if necessary.

Due to the water fund's recent history of low cash, the majority of the cash is in the general fund. The village's access to capital markets in the past 20 years demonstrates its strong access to external liquidity. We expect the cash level to remain at least strong in the next two years.

Very weak debt and contingent liability profile

In our view, North Riverside's debt and contingent liability profile is very weak. Total governmental fund debt service is 6.0% of total governmental fund expenditures, and net direct debt is 61.7% of total governmental fund revenue.

The village does not have debt plans. It does not have any privately placed debt, direct-purchase debt, lines of credit or variable-rate debt.

In our opinion, a credit weakness is North Riverside's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. The village's combined required pension and actual OPEB contributions totaled 16.3% of total governmental fund expenditures in 2015. Of that, 12.5% represented required contributions to pension obligations, and 3.8% represented OPEB payments. The village made 98% of its annual required pension contribution in 2015. The funded ratio of the largest pension plan is 30.9%.

North Riverside contributes to three defined-benefit pension plans, the Illinois Municipal Retirement Fund (IMRF), the Fire Fighter's Pension Plan, and the Police Pension Plan. The IMRF, which is a multiple employer plan, was 64% funded as of Dec. 31, 2014, with an unfunded actuarial accrued liability of \$2.14 million. The village implemented Government Accounting Standards Board statement 68 in the fiscal 2015 audit on police and fire pension reporting with reporting as of April 30, 2015. The police pension plan, a single employer plan, had a fiduciary net position of 30.9% of the total pension liability, with a net pension liability of \$34.6 million. The firefighters' pension plan, also a single employer plan, had a plan fiduciary net position as a percentage of the total pension liability of 24% with a net pension liability of \$25.9 million. These low funding levels follow years of not funding the plans sufficiently. North Riverside recently adopted a pension funding policy that calls for it to contribute the actuarially determined contribution each year, which is more than what state statute requires. However, due to this particular large liability, the funded level would not significantly increase for many years. The village contributed the actuarially determined amount in fiscal years 2015 and 2016.

Strong institutional framework

The institutional framework score for Illinois non-home rule cities and villages subject to the Property Tax Extension Limitation Law is strong.

Outlook

The stable outlook reflects our view that North Riverside's budgetary performance will remain at least adequate and the flexibility will remain strong. We do not expect to change the rating in the two-year outlook period.

Upside scenario

We could consider raising the rating if the village's pension funding ratios were to improve and it demonstrated the ability to make the full pension payment, consistently.

Downside scenario

We could consider lowering the rating if economic indicators were to fall below what we consider strong.

Related Research

2015 Update Of Institutional Framework For U.S. Local Governments

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