

RatingsDirect®

Summary:

Wheeling Village, Illinois; General Obligation

Primary Credit Analyst:

Scott Nees, Chicago (1) 312-233-7064; scott.nees@spglobal.com

Secondary Contact:

Andrew J Truckenmiller, Chicago (1) 312-233-7032; andrew.truckenmiller@spglobal.com

Table Of Contents

Rationale

Outlook

Related Research

Summary:

Wheeling Village, Illinois; General Obligation

Credit Profile

US\$12.94 mil GO rfdg bn ds ser 2016 due 12/01/2022

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the village of Wheeling, Ill.'s series 2016 general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA' long-term ratings on the village's existing debt. The outlook is stable.

The series 2016 bonds are being issued to currently refund the village's series 2005 tax-increment revenue bonds for interest cost savings. The 2016 bonds will be payable from ad valorem property taxes to be levied against all taxable property within the village, without limit as to rate or amount. In addition, the village is also pledging tax-increment revenues derived from its North Milwaukee/Lake-Cook Redevelopment Project Area as security for the bonds, though we rate the bonds under our local government GO criteria. The village's series 2012 GO sales tax refunding bonds are secured by sales tax revenues in addition to the village's GO pledge, and we similarly rate the bonds under our GO criteria.

The 'AA' rating reflects our view of the village's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA)_ methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund but a slight operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 at 50% of operating expenditures;
- Very strong liquidity, with total government available cash at 61.7% of total governmental fund expenditures and 5.2x governmental debt service, as well as access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 11.9% of expenditures and net direct debt that is 114.8% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it, but rapid amortization, with 69.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Wheeling's economy adequate. The village, with an estimated population of 39,345, is a 8.6-square-mile home-rule municipality 25 miles northwest of downtown Chicago in Cook and Lake counties in the Chicago-Naperville-Elgin MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 104.1% of the national level and per capita market value of \$63,765. Overall, market value fell by

2.5% over the past year to \$2.5 billion in 2016. The weight-averaged unemployment rate of the counties was 6.1% in 2015.

Village residents have easy access to downtown Chicago via the Metra commuter train, which has a station in the village, and can access the broader MSA via Interstates 94 and 294. While easily commutable to Chicago and its northwest suburbs, the village itself is also home to a healthy manufacturing and service base, with leading employers including: Durable Packing International (aluminum foil and foil products, employs 2,000); Handi-Foil Corp. (aluminum foil cooking containers, 800); the Segerdahl Corp. (lithographic printing, 725); National Louis University (600); and Crothall Laundry Systems (500).

Like much of the surrounding region, the village saw sharp declines in equalized assessed value (EAV) and market value for several years after the Great Recession, though the declines have since levelled off, more or less. In levy year 2014, EAV grew for the first time since the recession and increased by 2.3% before falling again in 2015 by 2.5% to \$836 million, which management attributes primarily to the county's adjustment of the equalization factor (used to make valuations uniform across different counties in the state). Management indicates that it expects to see strong growth in EAV in the coming year, in part due to a triennial reassessment. Based on the most recent data available (from levy year 2014), the village's total EAV includes about 50% residential, 34% industrial, and 16% commercial properties.

Very strong management

We view the village's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

We have revised the FMA to "strong" from "good" because the village board has recently adopted a debt management policy. Highlights to the FMA include: annual budgeting that ties in the current-year budget to past trends and future projections and includes detailed analysis of key revenues and expenditures; monthly budget-to-actual reporting to the board; a basic five-year revenue and expenditure projection by fund that is updated annually; a detailed five-year, rolling capital improvement plan that is updated annually and that includes funding sources for projects in the plan; an investment management policy with monthly investment holding reports to the board; and a formal fund balance policy requiring a minimum 25% unassigned general fund balance for cash flow purposes and to which the village has historically adhered. The village's new, formal debt management policy includes both general guidelines for debt issuance and limitations on total debt issuance, amortization, and carrying charges.

Strong budgetary performance

Wheeling's budgetary performance is strong, in our opinion. The village had slight deficit operating results in the general fund at negative 0.7% of expenditures after data adjustments, but a slight surplus result across all governmental funds at 0.6% in fiscal 2015.

We have adjusted fiscal 2015 general fund expenditures to account for routine transfers and general and total governmental fund revenues to account for one-time revenues. The village has seen strong budgetary performance for the past three audited fiscal years, and we expect its performance to remain strong. As a home-rule municipality, it has significant revenue-raising flexibility, which it has leveraged to its advantage in recent years, as evidenced in particular in the past two fiscal years where the board proactively raised its property tax levy by 9% in 2014 (for taxes payable

2015) and by an additional 11% in 2015 to avoid depleting its reserves. The fiscal 2016 budget is balanced without the use of reserves, and management is currently projecting finishing the year with a small surplus in the general fund and results comparable to prior years across all governmental funds. Key general fund revenue sources include property taxes (29% of fiscal 2015 revenues), sales taxes (29%), and charges for services (6%).

Very strong budgetary flexibility

Wheeling's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 at 50% of operating expenditures, or \$18.6 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 available fund balance includes \$13.7 million (37.2% of expenditures) in the general fund and \$4.9 million (13.3%) that is outside the general fund but legally available for operations.

The village has additional unrestricted reserves it could use to support operations in its capital equipment replacement fund. Management anticipates at least break-even operations through at least 2016 and projects little change in the capital equipment replacement fund balance. We anticipate available reserves remaining very strong and well in excess of 30% of expenditures through at least the next two years.

Very strong liquidity

In our opinion, Wheeling's liquidity is very strong, with total government available cash at 61.7% of total governmental fund expenditures and 5.2x governmental debt service in 2015. In our view, the village has strong access to external liquidity if necessary.

The village's periodic debt issuance over the past few decades supports the conclusion that it has strong access to external sources of liquidity if needed. We believe that its cash levels will remain very strong through at least the next two years.

The village has two outstanding variable-rate bonds purchased by Bank of America. These include its series 2008 GO bonds (\$16.9 million outstanding) and series 2009 GO bonds (\$10 million outstanding). The purchase agreements for the bonds do not list events of default and do not include acceleration provisions.

With respect to each of the variable-rate bonds, the village has entered into interest rate swaps (also with Bank of America) to hedge against interest rate fluctuations. In each case, the swap's notional amount and maturity correspond to the principal amount and maturity of the associated bonds. For the 2008 bonds, the village pays a synthetic fixed rate of 4.33% and receives a variable payment of 64% of the one-month USD-LIBOR-BBA rate plus 1%, while it pays a fixed rate of 3.92% for the 2009 bonds and receives a payment of 63.169% of the one-month USD-LIBOR-BBA rate plus 0.493%. The 2008 swap has a fair value of negative \$1.9 million, and the 2009 swap a fair value of negative \$2.1 million as of Dec. 31, 2015. While the swaps pose some degree of counterparty and termination risk, we believe the potential effect on liquidity is minimal, as the village could cover the current negative fair market value of the combined swaps with cash on hand and still retain a very strong liquidity score and healthy overall cash position.

Very weak debt and contingent liability profile

In our view, Wheeling's debt and contingent liability profile is very weak. Total governmental fund debt service is 11.9% of total governmental fund expenditures, and net direct debt is 114.8% of total governmental fund revenue.

Approximately 69.8% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

We understand that the village has no additional debt plans at this time.

In our opinion, a credit weakness is Wheeling's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. Wheeling's combined required pension and actual OPEB contributions totaled 10.4% of total governmental fund expenditures in 2015. Of that amount, 8.7% represented required contributions to pension obligations, and 1.7% represented OPEB payments. The village made 121% of its annual required pension contribution in 2015. The funded ratio of the largest pension plan in terms of net pension liability is 55.9%.

The village contributes to three defined-benefit pension plans. These include the Illinois Municipal Retirement Fund (IMRF), an agent, multiemployer defined-benefit pension system, as well as the village police and firefighters' pension plans, both single-employer plans. As of the Dec. 31, 2015, actuarial valuation the village's IMRF plan was 84% funded with an \$8.9 million net pension liability, its police plan 66% funded with a \$22.8 million net pension liability, and its firefighters' plan 56% funded with an \$26.7 million net pension liability. The village also sponsors a single-employer defined-benefit OPEB plan that provides health care and life insurance to eligible retirees and that the village funds on a pay-as-you-go basis. The OPEB plan is 0% funded with an \$18.4 million unfunded liability. The village funded at least the annual required contributions (ARCs) in its three pension plans in the past three fiscal years, and overfunded both the police and fire plans. In addition, we understand that the board recently adopted a policy that would require it to consider transferring general fund surpluses to the village's pension funds in future years. However, we believe that the village's pension and OPEB costs, which have accelerated in recent years and were in excess of 10% of adjusted total governmental funds expenditure in the most recent year, will likely remain elevated in the medium term.

Strong institutional framework

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

Outlook

The stable outlook reflects our expectation that the rating will remain unchanged through the two-year outlook horizon, particularly given the village's strong budgetary performance and consistent maintenance of very strong reserves and liquidity. The village's very strong management and participation in the Chicago MSA lend additional stability to the rating.

Downside scenario

We could lower the rating if the village were to see sustained deterioration in its budgetary performance to a level we consider weak, pressuring reserves to a level we consider merely good.

Upside scenario

We could raise the rating if the village were to see ongoing and sustainable improvements in its economic metrics to levels consistent with credits at a higher rating and if its debt profile, which is currently very weak, improves materially, holding all other rating factors constant.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- 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
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 4, 2016)		
Wheeling Vill GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Wheeling Vill GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Wheeling Vill GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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

Copyright © 2016 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.