

Wheeling, Illinois

The 'AA+' rating reflects the Village of Wheeling's robust financial resilience supported by solid reserves, broad independent revenue-raising ability given its status as an Illinois home rule municipality set against slow natural revenue growth, and modest long-term liability burden. The rating also factors in Wheeling's adequate spending flexibility and positive operating performance during the current economic recovery.

Economic Resource Base: Wheeling is a community of approximately 39,000 located 25 miles northwest of downtown Chicago in Cook County, close to the border with Lake County. Wheeling benefits from good highway access and its commuter rail station links the village directly to Chicago and its broad employment opportunities. The village's population grew 9% between 2000 and 2010, highlighting Wheeling's desirability for professionals commuting to work in Chicago.

Key Rating Drivers

Revenue Framework: 'aa': Fitch Ratings expects the natural pace of Wheeling's general fund revenue growth to be about even with the level of inflation. Despite continued economic expansion, the presence of five tax increment financing (TIF) districts in the village and large tax abatements offered to developers have slowed the natural rate of property tax expansion. Wheeling's revenue system includes multiple sources of tax revenue given its status as an Illinois home rule municipality, which affords the village unlimited revenue-raising powers.

Expenditure Framework: 'aa': Fitch expects the natural pace of spending growth will marginally outstrip the baseline rate of revenue expansion absent continuous policy action. The village retains adequate expenditure flexibility due to its ability to cut annual transfers to the capital and insurance funds, delay capital projects, and realign staffing requirements. Carrying costs are somewhat elevated, averaging around 22% of expenditures.

Long-Term Liability Burden: 'aa': Wheeling's long-term liability burden is relatively modest, equaling 11% of personal income. Management has acted to reverse growth in future pension liabilities by raising its annual pension contributions to above the actuarial level.

Operating Performance: 'aaa': Wheeling's financial resilience is robust. The village retains healthy reserve balances to cushion against revenue declines, strong revenue-raising ability, and adequate spending flexibility with which to close budget gaps. Fitch views budgetary management during the present recovery as very strong, as Wheeling has maintained high general fund balances and cash funded its ongoing capital needs while achieving balanced operations. The village has also rebuilt additional reserves outside the general fund that were depleted during the recession.

Rating Sensitivities

Rising Fixed Costs: The rating is sensitive to material changes in the village's fixed cost burden, which could rise further if pension liabilities increase due to investment performance that is below assumed rates of return.

Slower-than-Anticipated Revenue Growth: Fitch expects the natural pace of revenue growth to be roughly in line with inflation. Slower revenue expansion linked to persistent underperformance by one or more of the village's tax revenue sources could pressure the rating.

Ratings

Long Term Issuer Default Rating	AA+
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Outstanding Debt

General Obligation Refunding Bonds	AA+
General Obligation Sales Tax Refunding Bonds	AA+
General Obligation Water System Bonds	AA+

Rating Outlook

Stable

Related Research and Criteria

[Fitch Affirms Wheeling, IL's IDR and GO Bonds at AA+; Outlook Stable \(October 2019\)](#)

[U.S. Public Finance Tax-Supported Rating Criteria \(April 2018\)](#)

Analysts

Michael D'Arcy
+1 212 908-0662
michael.d'arcy@fitchratings.com

Matthew Wong
+1 212 908-0548
matthew.wong@fitchratings.com

Credit Profile

Wheeling residents benefit from the village's proximity to employment opportunities in the Chicago area, augmented by a vibrant local economy. Wheeling's unemployment rate is consistently below those of Cook County and Illinois. The labor force has grown steadily since 2010 but remains below its pre-recession level. Poverty is in line with the U.S. and state medians; resident wealth levels are average.

Wheeling is home to a large population of commuters who work in Chicago, but the village is more than a bedroom community. Wheeling's diverse economy includes companies serving a variety of commercial sectors, including graphic design, multi-media marketing, healthcare and durable goods. The village is home to several hotels and a large number of eateries clustered around Milwaukee Avenue. Wheeling is also the co-owner and operator of Chicago Executive Airport, the third-busiest airport in Illinois after O'Hare and Midway.

The village experienced a 38% decline in taxable assessed valuation (AV) from 2010 through 2014 (the decline in 2014 alone was 16%). Taxable AV grew 2.3% in 2015, the first increase in AV since the recession. Since then, the village's equalized AV has expanded by 12%, reflecting a recovery in the local housing market and continuous new construction. Cook County works on a three-year assessment cycle for municipalities within its boundaries.

Revenue Framework

Wheeling's status as an Illinois home rule municipality provides significant revenue-raising flexibility, exempting it from the state-wide property tax levy limit and allowing it to impose a variety of taxes and fees not available to other cities and towns. Property taxes comprise about 36% of general fund revenues, followed by sales taxes (25%) and the local portion of state income taxes (15%). A variety of minor taxes, including a video gaming tax and hotel/motel tax, among others, account for slightly less than 10% of general fund revenues.

General fund revenues expanded below the rate of U.S. GDP but above the U.S. inflation rate (CPI) for the 10-year period from 2008 to 2018 to yield a 10-year compound annual growth rate (CAGR) of 2.7%. The CAGR factors in revenue growth that occurred as a result of policy actions taken by management, without which the growth rate would have been lower. Fitch also calculates an adjusted ten-year CAGR of slightly above 0% based on annualized growth in the property tax base. The adjusted CAGR reflects the last recession's negative impact on property values and the policy-driven effects on AV of the village's five TIF districts and various tax abatements provided to developers.

Absent policy action to raise recurring revenues, Fitch expects Wheeling's natural pace of revenue growth to be roughly equal to the U.S. inflation rate given the combination of its vibrant local economy – marked by high sector diversity, active new development, and proximity to Chicago – offset by tax and development incentives and slow growth in property values since the Great Recession. The second factor affects municipalities throughout the greater Chicago/Cook County region.

Wheeling's independent revenue-raising ability is extremely broad. As an Illinois home rule municipality, Wheeling is exempt from the statewide property tax levy cap that applies to Illinois' non-home rule municipalities and has the power to levy a variety of local taxes not available to non-home rule communities. In recent years, the village's elected board of trustees has been willing to raise property taxes and impose new fees and charges to achieve balanced operations.

The village has grappled with sluggish income and sales tax growth since the Great Recession. An expanding portion of online sales not captured in state and local tax collections has been a factor depressing sales taxes. A broadening of the tax base resulting from the U.S. Supreme Court's South Dakota vs. Wayfair decision could reverse recent trends by allowing the collection of a greater share of taxes generated by online sales. Illinois' Leveling the Playing Field Act (ILCS 185), signed into law on June 28, 2019, is estimated by village finance officials to lead to an 8% increase on local sales tax collections once it goes into effect on July 1, 2020, based on information provided by the Illinois Department of Revenue. The village's local use tax was up nearly 17% in the first six months of 2019, according to village officials. They view the increase as an early effect of South Dakota vs. Wayfair and are cautiously optimistic on further sales tax growth in 2019 and 2020.

Rating History (IDR)

Rating	Action	Outlook/	
		Watch	Date
AA+	Affirmed	Stable	10/03/19
AA+	Review - No Action	Stable	12/04/17
AA+	Downgraded	Stable	2/12/14
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	4/05/04
AA+	Upgraded	—	1/23/03
AA	Upgraded	—	1/20/99
AA-	Assigned	—	4/12/94

Expenditure Framework

Wheeling's general fund spending is heavily concentrated in public safety (70% of 2018 expenditures), which consists of police and fire protection for residents. General government services account for the balance of general fund expenditures at nearly 30%. A portion of public works and all water and sewer operations are run out of separate enterprise funds accounted for outside the general fund.

Spending growth in the absence of policy actions will likely be in line with, to marginally above, the natural rate of revenue growth, requiring regular budget management. Spending is driven by labor agreements with five bargaining units that dictate future salary and fringe benefit payments. Spending growth is also linked to the village's high level of cash-funded capital, which is a positive, as the village can cut back capital spending at its discretion without instituting layoffs or reducing core services to residents.

The village has an adequate degree of control over spending, as service levels are still recovering from cuts made during the last recession, which led to deep staffing cuts as well as cuts in capital funding. Management has filled essential positions and fully restored its capital fund deposits in 2016. Management believes the village's present ability to reduce costs is more limited than it was prior to the recession, but better than it was three years ago. Overall, the village has reduced full-time staff positions by 17% since 2009.

Wheeling's fixed carrying costs for debt service, actuarially determined pension contributions and retiree health benefits are elevated, averaging around 22% of governmental fund spending in recent years. Fixed costs could rise further, if investment returns are below assumed rates. Improved pension funding is a priority for Wheeling; the village's annual payments have been above its actuarially determined contribution (ADC) levels for ten years. As a result, the village could return its contributions to the ADC levels, providing it with added financial flexibility.

Illinois is a strong labor state. Most unions have access to binding arbitration and non-uniformed employees have the right to strike. Contracts for the public works and firefighters' bargaining units extend from May 2017 to April 2021 and from May 2019 to April 2023, respectively. Contracts for the three police units expired on April 30, 2019, and negotiations for new contracts have not yet started. The units representing fire personnel agreed to respective pay raises of 2.5%, 2.75%, 2.5% and 2.75% for the contract years. The public works unit agreed to 2.5% pay raises for 2019 and 2020. The new contracts include higher contributions to health insurance premiums, emergency room co-pays, and deductibles as cost-saving measures to balance out the cost of salary increases.

Wheeling funds its capital program with dedicated revenue sources that include a motor fuel tax, gas and electric use tax, and water and sewer fees. Management's policy is to transfer at least \$1 million annually to the capital equipment replacement fund (CERF) to fund equipment purchases. Between 2009 and 2015, annual CERF transfers were reduced by 50% to retain funds for general fund operations. Full transfers were restored in 2016 and have continued into 2019. The size of the transfers has grown, reaching \$1.9 million in 2018. As of Dec. 31, 2018, the CERF held \$7.2 million of cash reserves for equipment purchases. The village's separate capital projects fund held another \$5.9 million of available fund balances derived from accumulated cash. The insurance liability fund held \$4.4 million of cash at year-end 2018. These supplemental reserves are a source of added financial flexibility for the general fund, as management can reduce or suspend transfers to reduce general fund spending.

Long-Term Liability Burden

Wheeling's long-term liability burden is moderate, with net overall debt and adjusted unfunded pension liabilities accounting for 11% of combined personal income in 2018. Direct debt (\$50 million) and overlapping debt (\$70 million) account for just over half (52%) of the liability, while the village's net pension liability as adjusted by Fitch accounts for \$112 million, or 48% of the total. Direct debt amortization is rapid, with 86% of principal paid off within 10 years.

Wheeling participates in two single-employer defined benefit pension plans for police and firefighters as well as in the Illinois Municipal Retirement Fund (IMRF), the state's cost-sharing multi-employer (CSME) retirement system. The village consistently funds its actuarially determined annual pension contributions for all plans and has contributed above its required amounts for police and fire in each of the past ten years. Wheeling's three pension plans had a

collective assets-to-liabilities ratio of 66% in 2018 using the 7.25% discount rate the plans assume. Using a standard 6% discount rate assumption, Fitch calculates a collective asset-to-liability ratio for the plans of 56%. All three plans recently reduced their discount rates to 7.25% from 7.5%.

The village closed its other post-employment benefits (OPEB) plan in 1981. The village typically pays the full annual OPEB ARC but has not established a trust fund to cover the remaining liability of \$17.3 million at this time. Fitch regards Wheeling's unfunded OPEB liability as minimal.

Wheeling presently has two series of synthetically fixed rate bonds outstanding that represent 41% of its direct debt burden. The village pays fixed rates of 4.33% and 3.92%, respectively, on its series 2008 and 2009 bonds under a swap agreement with the counterparty, Bank of America, N.A.

Operating Performance

Fitch views Wheeling's financial resilience as robust. For details, see Scenario Analysis, page 5.

Fitch regards Wheeling's budget management during periods of economic recovery as superior. During the current expansion, Wheeling has generated operating surpluses across all major governmental funds, added to reserves, funded pay-go capital projects with internal cash resources, and over-funded its annual pension payments.

Wheeling produced general fund operating surpluses in six out of the past eight fiscal years. Management gradually returned operations to balance after large deficits in 2009 and 2010 caused by declining sales and income taxes during the recession. The village achieved a \$2.5 million operating surplus in 2017 before transferring the bulk of the surplus to the CERF to build its cash position. Management retained \$158,445 of the surplus for an addition to general fund balance. Wheeling then achieved a \$4.3 million general fund surplus in 2018 prior to transfers out to the CERF and capital projects fund. It retained \$171,897 of the surplus for general fund balance, bringing available reserves to \$14.8 million, equal to 38% of expenditures and transfers out. Consistent with prior years, the village used surpluses from its TIF funds to make pension contributions above the ADCs.

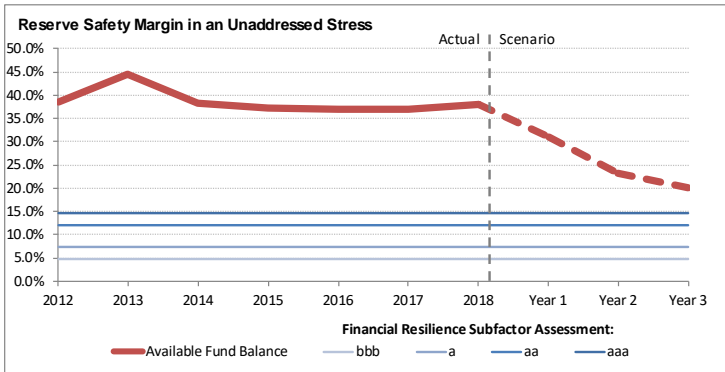
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Wheeling (IL)

Scenario Analysis



Analyst Interpretation of Scenario Results:
Fitch views Wheeling's financial resilience as robust. Wheeling's solid gap-closing capacity is based on its high independent revenue-raising ability, adequate control of expenditures, and healthy reserve cushion. The village has made modest draws on reserves during cyclical downturns to supplement underperforming revenues. The village has accompanied reserve draws with policy action to control costs by reducing staff, postponing capital spending, reducing transfers to both the CERF and liability insurance funds, and by keeping some budgeted positions vacant. Management and elected leaders have also demonstrated a willingness to periodically raise property taxes and fees, if needed, to maintain structural balance.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(4.8%)	1.0%	6.8%
Inherent Budget Flexibility	High		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output			
	2012	2013	2014	2015	2016	2017	2018	Year 1	Year 2	Year 3	
Total Revenues	31,115	31,956	33,289	37,642	38,264	38,403	37,801	35,968	36,324	38,805	
% Change in Revenues	-	2.7%	4.2%	13.1%	1.7%	0.4%	(1.6%)	(4.8%)	1.0%	6.8%	
Total Expenditures	30,244	30,780	33,026	35,583	35,697	35,903	33,493	34,163	34,846	35,543	
% Change in Expenditures	-	1.8%	7.3%	7.7%	0.3%	0.6%	(6.7%)	2.0%	2.0%	2.0%	
Transfers In and Other Sources	73	1	49	58	17	158	43	41	41	44	
Transfers Out and Other Uses	2,774	606	1,132	1,330	2,431	2,504	4,179	4,262	4,347	4,434	
Net Transfers	(2,701)	(605)	(1,083)	(1,272)	(2,414)	(2,345)	(4,135)	(4,221)	(4,306)	(4,390)	
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-	
Net Operating Surplus(+)/Deficit(-) After Transfers	(1,830)	571	(820)	787	153	155	172	(2,417)	(2,829)	(1,129)	
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(5.5%)	1.8%	(2.4%)	2.1%	0.4%	0.4%	0.5%	(6.3%)	(7.2%)	(2.8%)	
Unrestricted/Unreserved Fund Balance (General Fund)	12,713	13,948	13,092	13,703	14,125	14,252	14,368	11,951	9,123	7,994	
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-	
Combined Available Funds Balance (GF + Other Available Funds)	12,713	13,948	13,092	13,703	14,125	14,252	14,368	11,951	9,123	7,994	
Combined Available Fund Bal. (% of Expend. and Transfers Out)	38.5%	44.4%	38.3%	37.1%	37.0%	37.1%	38.1%	31.1%	23.3%	20.0%	
Reserve Safety Margins	Inherent Budget Flexibility							High	Superior		
Reserve Safety Margin (aaa)	Minimal							Limited	Midrange	High	Superior
Reserve Safety Margin (aa)	77.6%							38.8%	24.2%	14.5%	9.7%
Reserve Safety Margin (a)	58.2%							29.1%	19.4%	12.1%	7.3%
Reserve Safety Margin (bbb)	38.8%							19.4%	12.1%	7.3%	4.8%
Reserve Safety Margin (bbb)	14.5%							9.7%	7.3%	4.8%	2.4%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

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