

FITCH RATES SKOKIE, IL \$10MM GO BONDS 'AA+', OUTLOOK STABLE

Fitch Ratings-New York-28 March 2018: Fitch Ratings has assigned a 'AA+' rating to the Village of Skokie (IL) \$10 million taxable general obligation bonds, series 2018A.

The bond proceeds will fund site preparation and construction of a downtown parking garage. The bonds are being sold via competition on April 11, 2018.

The village's Issuer Default Rating (IDR) is 'AA+.'

The Rating Outlook is Stable.

SECURITY

The bonds are general obligation of the village backed by its full faith and credit and unlimited taxing power.

ANALYTICAL CONCLUSION

The 'AA+' IDR and GO ratings reflect the village's superior financial resilience given the strong reserve balances and high budgetary flexibility. The village has significant legal ability to increase revenues given its home rule status and adequate expenditure flexibility. Carrying costs for debt service and post-employment benefits are elevated but the overall long-term liability burden is moderate relative to personal income.

Economic Resource Base

The village is an affluent residential community in close proximity to Chicago with a large retail presence including three large shopping centers, four major hotels and significant ongoing development of new stores and restaurants.

KEY RATING DRIVERS

Revenue Framework: 'aa'

The village benefits from its strong revenue-raising flexibility given its home rule status. Revenue growth prospects are expected to remain solid given ongoing improvements in the local tax base.

Expenditure Framework: 'aa'

Fitch expects the natural trend of expenditure growth to be in line with revenue growth. Carrying costs for debt and post-employment benefits are elevated but the village maintains adequate flexibility to reduce spending.

Long-Term Liability Burden: 'aa'

Debt and pension liabilities are moderate, equal to approximately 14% of personal income.

Operating Performance: 'aaa'

The village has significant financial resilience and has achieved a high level of general fund reserves through the implementation of timely new recurring revenue sources and conservative budgeting practices.

RATING SENSITIVITIES

Financial Resilience: The village's maintenance of superior gap-closing capacity, including a combination of reserves and budgetary flexibility sufficient to offset revenue volatility, is an important rating factor. The inability to maintain ample financial resilience would result in negative rating pressure.

CREDIT PROFILE

The village serves as a major retail and commercial center including several large industrial areas encompassing approximately 250 businesses. Average educational attainment levels are higher than the state and nation; 46% of the population is college educated. Wealth levels are also above average and the unemployment rate is in line with that of the U.S. The village continues to see strong building permit activity, which reflects improvement in the local tax base after declines in taxable assessed values in prior years. Taxable assessed value (TAV) had been slow to recover after the Great Recession; however, TAV grew by 17% in 2017, driven by Cook County's triennial tax base reassessment.

Revenue Framework

Intergovernmental revenues are almost 40% of fiscal 2017 (fiscal year end April 30) general fund revenues and include municipal sales taxes, state income taxes and personal property replacement taxes. Property taxes are 20% of fiscal 2017 general fund revenues and other taxes are almost 30% including home rule sales taxes, utility taxes and food and beverage taxes.

Fitch believes that general fund revenue growth prospects will remain solid. Absent policy action, growth prospects should remain above the rate of inflation based on expected economic trends. Growth in sales and other local taxes has been strong due to an increase of retail development and growth in the housing market.

The village is a home rule municipality and is not subject to the state's Property Tax Limitation Law. The village used this flexibility to implement local-option revenue sources including an increase in the home rule sales tax to 1.25% from 1% in fiscal 2015.

In 2010, the village implemented a municipal utility tax to address the rising cost of pensions. The utility tax has been consistent and has generated over \$5 million annually over the past several years, which was approximately 8% of total general fund revenues in fiscal 2017. All of the utility tax revenues have been entirely dedicated to funding the village's pension plans. The village implemented a 2% food and beverage tax on gross receipts from prepared foods in fiscal 2016 and a portion of the total receipts (about \$4 million in fiscal 2017) will also be used to fund future increases in annual pension contributions.

Expenditure Framework

The largest general fund expenditure is public safety which accounts for over 60% of fiscal 2017 spending, followed by public works which accounted for over 20%.

Fitch expects that growth in expenditure demands will be in line with to marginally above revenue growth over time. Salary increases, which are the largest expenditure item, are expected to approximate the rate of inflation based on settled labor contracts and planned increases for non-union employees. Non-unionized employees typically receive the same salary and benefit adjustments as employees represented by labor unions.

Fitch believes that the flexibility to reduce operating expenditure items is adequate. Police and firefighters account for almost half of the village's workforce and are managed through collective bargaining agreements with binding arbitration that provide management moderate control over labor costs. Management has controlled labor costs through attrition rather than layoffs in the past. In the event of a revenue shortfall, management also has the ability to eliminate or delay capital

projects funded through the public works budget within the general fund for budgetary savings. This budgeted funding totaled approximately 15% of general fund spending for fiscal 2018.

Carry costs including debt service and annual employee retirement benefits were 22% of general fund expenditures in fiscal 2017. Management has increased its pension funding in recent years to fully fund the actuarially required contributions. Nevertheless, Fitch's supplemental pension metric, which estimates annual pension contributions based on a more conservative level-dollar payment for 20 years with a 5% interest rate, indicates that contributions at the actuarial level would likely be insufficient to reduce pension liabilities over time. For more information, see Fitch's "Revised Pension Risk Measurements (Enhancing Pension Analysis in U.S. Public Finance Tax-Supported Rating Criteria)" dated May 31, 2017.

Long-Term Liability Burden

The village's long-term liability burden is moderate, with debt and pension liabilities equivalent to approximately 14% of personal income. The majority of the total debt burden is from overlapping debt including local school districts and Cook County. The village's direct debt burden and future borrowing plans are modest and the amortization of principal is rapid. The village's five-year capital plan assumes that the majority of annual capital improvements will be cash-funded.

The village manages two single employer defined pension plans for police and fire, governed by Illinois state statutes. General employees participate in the state's defined benefit Illinois Municipal Retirement Fund. The combined ratio of assets to liabilities at an adjusted 6% rate of return is 56%.

The village provides only an implicit rate subsidy for OPEB, resulting in a low unfunded actuarial liability of \$8.4 million (0.2% of personal income).

Operating Performance

The village has ample financial resilience given the strong reserve balances, adequate expenditure flexibility and high independent legal ability to increase revenues in the event of a moderate economic downturn. The village has had small general fund surpluses annually since fiscal 2012 including a \$1 million operating surplus in fiscal 2017. The unrestricted general fund balance was over 25% of spending at the end of fiscal 2017.

Management has been proactive in implementing new recurring revenues to maintain stable operations and fund long-term liabilities. Throughout the most recent economic downturn, expenditure growth was managed through a hiring freeze and limited reductions in services to residents. The fiscal 2018 budget assumes approximately 3% growth in general fund revenue including a modest fund balance appropriation; however, based on current YTD results, management anticipates a balanced budget. The village has a long-term policy of maintaining general fund reserves equivalent to 25% of expenditures, which management plans to maintain by utilizing its strong inherent budgetary flexibility. Available general fund operating surpluses will be used to fund the long-term pension obligation. The village has a history of conservative budgeting practices.

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Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
<https://www.fitchratings.com/site/re/898466>

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