

RatingsDirect®

Summary:

Oak Lawn, Illinois; General Obligation

Primary Credit Analyst:

David H Smith, Chicago + 1 (312) 233 7029; david.smith@spglobal.com

Secondary Contact:

Andrew Bredeson, Englewood + 1 (303) 721 4825; andrew.bredeson@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Summary:

Oak Lawn, Illinois; General Obligation

Credit Profile

Oak Lawn Vill GO		
<i>Long Term Rating</i>	BBB+/Stable	Upgraded
Oak Lawn Vill GO (AGI)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
Oak Lawn Vill GO (AGI)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
Oak Lawn Vill GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
Oak Lawn Vill GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded
Oak Lawn Vill GO (BAM)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings raised its long-term rating on the Village of Oak Lawn, Ill.'s general obligation (GO) debt to 'BBB+' from 'BBB' and removed the rating from Under Criteria Observation.
- The outlook is stable.
- The rating action reflects the village's improved operations and reserves and the application of our "Methodology For Rating U.S. Governments" criteria, published Sept. 9, 2024.

Security

The village's unlimited ad valorem GO pledge secures its outstanding rated debt.

Credit overview

Oak Lawn's improved operations, coupled with a material increase in reserves, which we expect the village to maintain, support the upgrade to 'BBB+'. Factors which have led to this improved financial picture include a 0.75% sales tax increase, more conservative budgeting, and strong revenue gains.

Constraining our view of the village's credit quality are its significantly underfunded Police and Firefighters' Pension Plans, which remain poorly funded at 45% and 51%, respectively. While the village has taken steps to improve funding levels of these plans by adopting a pension funding policy and gradually increasing annual contributions, it continues to fall short of the annual actuarial determined contributions (ADCs) recommended by its actuary to achieve 100% funding. Absent material improvement in the village's public safety pension plans in conjunction with maintenance of healthy reserve levels, we consider additional rating upside limited.

The 'BBB+' rating reflects our view of the village's:

- Robust gross county product (GCP) per capita, and while its per capita incomes are somewhat weaker than national averages, its primarily residential tax base is complemented by a diverse top-10 taxpayer composition, benefiting from its status as an inner-ring suburb 15 miles southwest of downtown Chicago.
- Financial performance that has been stronger in recent years, with a trend of general fund operating surpluses. For fiscal 2024, the village anticipates posting a break-even result. We note, however, that the village's pension contribution shortfall below the ADC towards 100% funding by 2040 for its police and firefighters' funds have artificially boosted its financial performance.
- Reserves that have improved substantially in recent years to 24% of general fund revenue in fiscal 2023, which expect will remain above the village's fund balance target of 16.7%;
- Debt profile characterized by a high annual cost for debt and liabilities, with moderately low net direct per capita, but with no material additional debt plans during the medium term.
- Poorly funded public safety pensions, reflected in an elevated net pension liabilities (NPLs) per capita metric, with an elevated discount rate of 7% and actual pension payments below actuarial recommendations for 100% funding.
- Management conditions that we view as a credit weakness because of the village's continuing shortfall of its ADCs for its Police and Firefighters' plans, despite improvements in annual contribution levels in recent years. In developing its budget, it consults with outside sources such as the Illinois Municipal League and provides quarterly budget-to-actual updates to its board. While the village lacks formal long-term financial forecasting, it does maintain a limited five-year capital plan. The village does not maintain debt and reserve policies, though it has a general fund reserve goal of 16.7% of expenditures, which it is meeting.
- For more information on our institutional framework assessment for Illinois municipalities, see "Institutional Framework Assessment: Illinois Local Governments," published Sept. 10, 2024.

Environmental, social, and governance

We analyzed the village's environmental, social, and governance risk factors within the context of our criteria. In evaluating its governance risks, we note that large unfunded pension liabilities and optimistic pension funding assumptions constitute somewhat elevated governance risks. The village has not consistently made its full ADCs in recent years. We consider its social and environmental risks credit neutral.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the village will continue to manage its finances effectively despite the loss of American Rescue Plan Act subsidies and maintain generally stable operations while sustaining current reserve levels.

Downside scenario

We could lower the rating if the village experiences a significant fiscal imbalance leading to a deterioration in reserves or should the funding levels of its public safety pension plans materially worsen.

Upside scenario

We could raise the rating should the village's pension funding contributions increase to levels that avoid deferring substantial costs, while maintaining or improving its other credit factors.

Credit Opinion

Primarily residential, inner ring suburb benefiting from access to the Chicago metropolitan statistical area (MSA)

The village is 15 miles southwest of downtown Chicago and benefits from access to the broad and diverse Chicago MSA area economy. Its tax base is primarily residential (72% of equalized assessed value [EAV]), followed by commercial (28%). The tax base is diverse. The local employment base is anchored by the Advocate Christ Medical Center, a major hospital that is the village's largest employer, and village residents have access to ample employment opportunities in the surrounding MSA. Management indicates that there are no outstanding tax appeals that could pressure village finances. We anticipate continued tax base growth over the next few years, aided by new commercial development and reassessment gains.

Diversified revenue mix supports operationally balanced results, though pension underfunding persists

The village relies on a variety of funding sources to support operations, including sales taxes, income taxes, property taxes, and charges for services. Further enhancing this revenue mix was its decision to increase sales taxes by 0.75% three years ago. This, coupled with strong revenue gains in income, corporate personal property replacement, and sales taxes has contributed to positive operations and higher reserves to 24% of revenue, or \$17.7 million, from just under \$2 million, or 3.6% three years earlier.

Offsetting these positive developments has been the village's chronic underfunding of its Police and Firefighter Pension plans, which remain poorly funded at 45% and 51%, respectively. While Oak Lawn has taken steps to address these liabilities by adopting a pension funding policy and increasing its annual contributions in recent years, it is still falling short of its ADCs for these plans for 100% funding by 2040. In our view, the practice of underfunding its ADC masks operational pressure at the expense of improvements in pension funding.

The village indicates that its fiscal 2024 general fund performance is expected to be balanced, and states that it recently amended its budget to provide for additional public safety pension funding contributions. Despite this, we understand Oak Lawn will likely fall short of its 100% ADC for these plans. We anticipate generally stable reserves during the next few years, though the loss of ARPA funding and potential softening of key revenue streams may lead to some operational pressure in the near term.

Chronic pension underfunding represents a significant management deficiency

Oak Lawn's management practices are characterized by the use of outside sources such as the Illinois Municipal League during the budget process and the use of trend analysis when developing budgetary assumptions. The village provides quarterly budget-to-actual updates to its board. It does not engage in formal long-term financial forecasting, but it does maintain a limited five-year capital plan. While it maintains an investment policy for its pension plans, it does not maintain an investment policy for its general operations, nor a debt management or reserve policy. The

village has an informal reserve target of 16.7% of expenditures in its general fund which it is meeting.

Oak Lawn's inability to fully fund its ADC for its poorly funded public safety pension plans is a management weakness, in our view. The village's pension funding policy, adopted in 2016 and revised in 2019, has led to a gradual increase in annual contributions but defers many of the significant costs to address years of chronic underfunding until the 2030s. Moreover, its inability to meet its full ADC further limits the effectiveness of the policy.

High cost for debt and liabilities and high pension liabilities per capita contribute to a weak debt and pension profile

Oak Lawn's debt profile is characterized by a high current cost of debt and liabilities, representing 26% of total governmental funds revenue in 2023. Given increasing annual pension contributions, we expect this figure to remain elevated. The village does not have any additional new-money GO debt plans in the next few years.

Oak Lawn's underfunded pension plans represent a substantial credit weakness despite its efforts to increase contributions and improve funding levels. Given plan actuarial assumptions and methods that defer costs, we expect fixed costs will continue to rise. If not proactively managed, this could increase pressure on operations and lead to credit deterioration.

The village participates in the following plans:

- A single-employer, defined-benefit police pension plan: 45% funded (as of Dec. 31, 2023), with a NPL totaling \$109.5 million;
- A single-employer, defined-benefit firefighters' pension plan: 51% funded (as of Dec. 31, 2023), with a NPL totaling \$79.6 million; and
- An implicit rate subsidy arising from retirees' staying on the village's health care plan while paying active premium rates: 0% funded, managed on a pay-as-you-go basis, with a liability of \$40 million as of Dec. 31, 2022.

Oak Lawn's annual contributions for both the police and firefighters' plans have fallen well below plan ADCs, as well as our minimum and static funding metrics in recent years. While the village has adopted a revised pension funding policy in 2019, which commits it to higher contributions in the coming years, we do not consider the plan a credible path to materially closing the funding gaps in the near term. Management uses a discount rate of 7% for its police and firefighters' plans, which we consider somewhat aggressive, exposing the village to escalating plan liabilities if market returns fall short of the plans' assumed levels.

Table 1

Oak Lawn, Ill.--Credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	3.60
Economy	2.0
Financial performance	4
Reserves and liquidity	2
Management	5.00
Debt and liabilities	5.00

Table 2

Oak Lawn, Ill.--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	126	--	126	123
County PCPI % of U.S.	111	--	111	112
Market value (\$000s)	3,687,538	3,580,098	3,633,822	3,951,297
Market value per capita (\$)	64,628	62,745	65,438	71,740
Top 10 taxpayers % of taxable value	7.8	7.8	8.0	8.2
County unemployment rate (%)	5.0	4.4	4.9	6.9
Local median household EBI % of U.S.	100	102	100	103
Local per capita EBI % of U.S.	95	97	94	95
Local population	57,058	57,058	55,531	55,078
Financial performance				
Operating fund revenues (\$000s)	--	73,027	77,193	63,717
Operating fund expenditures (\$000s)	--	71,446	68,781	66,301
Net transfers and other adjustments (\$000s)	--	2,423	2,322	4,681
Operating result (\$000s)	--	4,004	10,734	2,097
Operating result % of revenues	--	5.5	13.9	3.3
Operating result three-year average %	--	7.6	5.7	-0.4
Reserves and liquidity				
Available reserves % of operating revenues	--	24.2	17.3	7.0
Available reserves (\$000s)	--	17,707	13,369	4,489
Debt and liabilities				
Debt service cost % of revenues	--	9.2	8.8	9.4
Net direct debt per capita (\$)	1,259	1,259	1,394	1,171
Net direct debt (\$000s)	71,824	71,825	77,418	64,486
Direct debt 10-year amortization (%)	70	70	59	60
Pension and OPEB cost % of revenues	--	17.0	15.0	19.0
NPLs per capita (\$)	--	3,384	3,695	2,751
Combined NPLs (\$000s)	--	193,089	205,200	151,521

Financial data might reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. 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. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

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 acknowledgment 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 non-public 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.spglobal.com/ratings (free of charge), and www.ratingsdirect.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.spglobal.com/usratingsfees.

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