

RatingsDirect®

Summary:

Countryside, Illinois; General Obligation

Primary Credit Analyst:

Ying Huang, San Francisco + 1 (415) 371 5008; ying.huang@spglobal.com

Secondary Contact:

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

Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

Countryside, Illinois; General Obligation

Credit Profile

US\$6.65 mil GO bnds ser 2022A due 01/01/2038

Long Term Rating

AA/Stable

New

US\$3.66 mil GO bnds ser 2022B due 01/01/2042

Long Term Rating

AA/Stable

New

Countryside GO bnds

Long Term Rating

AA/Stable

Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating to Countryside, Ill.'s \$6.65 million series 2022A taxable general obligation (GO) bonds and \$3.66 million series 2022B GO bonds. At the same time, we affirmed our 'AA' rating on the city's existing GO debt. The outlook is stable.

The city's unlimited-tax GO pledge secures the bonds. Officials intend to use series 2022A bond proceeds, along with a \$4 million contribution from the city's reserve, to fund all of the city's unfunded police pension plan liability. The series 2022B bond proceeds will be used to pay for the costs of capital improvements, equipment replacement, vehicles, streets, street lights, curbs and gutters, sidewalks, storm sewers, water mains, and sanitary sewers.

Credit overview

Countryside benefits from the growing economy of the Chicago-Naperville-Elgin metropolitan statistical area (MSA). It has posted consistent positive operating performance in recent years, which contributes to the sustained very strong reserve and liquidity levels. While we view the city's conservative budgeting practice and good management favorably, we expect its debt burden will remain very weak, which we view as a constraining factor. Although the pension obligation bond issuance will increase the city's debt burden and add some near term market risk (should investments underperform in the early years), we believe the city has taken several prudent steps to manage the risks and that management will monitor performance to maintain adequate pension funding and stable financial performance.

The rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Very strong budgetary flexibility and liquidity, supported by consistently strong budgetary performance; and
- Very weak debt and contingent liability position, with debt service carrying charges at 19.7% of expenditures and net direct debt that is 299.4% of total governmental fund revenue in fiscal 2021.

Environmental, social, and governance

We analyzed the credit's environmental, social, and governance risk factors within the context of our criteria, and view the city's environmental, social and governance (ESG) risks as in line with the sector standard.

Stable Outlook

Upside scenario

If Countryside continues to moderate its debt burden, while sustaining existing credit factors, we could consider a positive rating action.

Downside scenario

If Countryside were to experience sustained fiscal imbalances, leading to weakened budgetary performance and budgetary flexibility, or if it couldn't manage its relatively high dependence on sales tax revenue in its general fund, we could consider a negative rating action.

Credit Opinion

Strong economy with growing tax base

Countryside is approximately 15 miles from downtown Chicago with direct access to interstates 55 and 294. The city is in Cook County and part of the Chicago-Naperville-Elgin MSA, which we consider broad and diverse. The city has an estimated population of 5,606. Due to the pandemic impact, Cook County unemployment rate was 11.1% in 2020, triggering a negative adjustment for the high unemployment rate. Nevertheless, as economic recovery progresses, unemployment has remained below 10%. We expect the county's economic score will likely improve upon the release of 2021 unemployment numbers because historical unemployment has been nearer state and national averages.

The city's equalized assessed valuation (EAV) has seen consistent growth between levy years 2016 and 2020, with a significant increase of 20% in 2020, mainly driven by reassessment. Due to its size, the city is home to a significant number of retailers, reflected in its property tax base composition. Residential properties account for 45.8% of total EAV, followed by commercial properties at 43.7%. The 10 leading taxpayers account for 18% of total EAV, which is diverse. For S&P Global Economics' latest U.S. economic forecast, see the report "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2022.

Very strong reserve and liquidity driven by consistently strong budgetary performance in recent years

The city has reported general fund surpluses during the past three audited fiscal years, ranging from 0.2%-4.8% of expenditures. After adjusting for one-time capital outlay, total governmental funds have also seen consistent surpluses in the last few years. In fiscal 2021, the city posted a general fund surplus of \$539,000 (or 3.9% of expenditures) and a healthy surplus of \$2.6 million (19.8% of expenditures) across total governmental funds in fiscal 2021. Management reports that \$180,000 of CARES funds and \$39,000 of Federal Emergency Management Agency grants have been used for police salaries and COVID-related expenses in fiscal 2021. The city's general fund revenues are dependent on sales tax revenues, which make up approximately 51% of general fund revenues in fiscal 2021. Despite this reliance on a traditionally volatile revenue stream, the city has maintained strong budgetary performance recently, buoyed by a

strengthening local economy. In addition, management typically budgets for flat sales tax revenues on a year-to-year basis. The strength of the sales tax revenue stream and other sources has allowed Countryside to not levy a property tax in recent years.

For fiscal 2022, the city adopted a balanced budget for general fund and budgets for a modest surplus in total governmental funds.

The city has advanced approximately \$6.97 million, which the available fund balance does not include, into its commercial redevelopment tax-increment financing fund from its general fund. Despite this, management has maintained very strong reserves in recent years. Given recent and expected budgetary performance, we believe budgetary flexibility will likely remain very strong in the near term, even after considering the anticipated \$4 million contribution from available reserves to eliminate the current police pension plan liability.

At fiscal year-end 2021, Countryside held \$14 million in cash and cash equivalents across all funds. We consider its access to external liquidity to be strong, as it has issued debt through the capital markets within the last 20 years. The city invests primarily in U.S. agency funds, municipal obligations, and other investments that we do not consider aggressive. We do not anticipate a weakening of its available cash position during the near term.

Very weak debt and contingent liability profile, despite the elimination of current unfunded pension liability with POBs

After the proposed debt issuance, Countryside will have about \$48.5 million in total direct debt. It does not have any variable-rate or direct-purchase debt. It also does not have any additional debt plans at this time.

The city participates in three pension plans:

- A defined-benefit, single-employer police pension plan: 73.3% funded, with an employer net pension liability of \$10.1 million as of April 30, 2021;
- Illinois Municipal Retirement Fund (IMRF) regular plan, an agent multiple-employer plan: 97.5% funded, with an employer net pension liability of \$391,800 as of Dec. 31, 2020; and
- IMRF sheriff's law enforcement plan: 107.8% funded, with an employer net pension asset of \$21,511 as of Dec. 31, 2020.

Countryside's combined required pension and actual other post-employment benefits (OPEB) contributions totaled 12.8% of total governmental fund expenditures in 2021. Of that amount, 11.8% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The city made its full required pension contribution in 2021. The police pension plan and IMRF use 7% and 7.25% discount rates respectively, both of which are above our 6.0% guideline and could lead to contribution volatility for the city. In fiscal 2020, police pension plan and IMRF contributions were 121% and 166% of our minimum funding progress metric, respectively.

The city is issuing \$6.7 million of POBs, which, along with \$4 million contribution from the city's available reserves, will fully fund the city's police pension plan unfunded liability, with the following estimated impact to credit factors:

- The combined funded ratio of all pension plans increases to about 100% from 80%,
- Net direct debt as a percentage of government revenues increases to 299% from 257%,

- Near-term carrying charges for pension + OPEB decrease to 6.2% from 12.8%, and
- Near-term debt service increases to 24.3% from 19.7%.

Expected budgetary savings in the near term are 2.0%. The amortization of the POBs is four years less than that of the pension. Expected savings are anticipated to grow over time as the POB debt service is generally level as opposed to increasing pension amortization payments, which we view favorably. Our analysis incorporates projected impacts in debt service, the debt load, and pension plan payments after the proposed debt issuance.

Countryside also administers a single-employer, defined-benefit health care plan that provides health insurance contributions for eligible retirees and their spouses. The city provides a maximum \$350 monthly to retirees under the plan until they are eligible for Medicare. The city's OPEB plan had an unfunded actuarial accrued liability of \$1.2 million at April 30, 2021, the most recent actuarial valuation date.

The city had been involved in litigation with Countryside Police Pension Fund regarding the calculation of a longevity benefit as a pensionable salary. In March 2017, the Circuit Court of Cook County ruled in the city's favor, leading to a reduced recalculation of pensionable salaries in the most recent actuarial report. This led to an improvement of the city's net position, as a percentage of total pension liability, to 65% from 43.5% in fiscal 2017. The police pension fund later appealed the court's ruling, but the court ruled in the city's favor. There is no further pending litigation relating to the plan.

Strong management, with good financial policies and practices

In developing its budget, Countryside uses outside sources such as the Illinois Municipal League to evaluate anticipated income tax, use tax, motor fuel tax, and other revenue sources. In addition, the city provides monthly budget-to-actual performance to its council in a monthly treasurer's report, and can amend the budget at any time.

With regard to long-term financial planning, the city maintains a detailed forecast of general fund revenues and expenditures that goes out four years beyond the budget year and is updated annually. The city also utilizes a 15-year capital improvement plan, which is also updated annually. The city has adopted an investment management policy and it provides quarterly updates regarding investment performance.

Countryside maintains a debt management policy that governs its debt issuance, but lacks detailed and specific quantitative components regarding debt management. The city also maintains a formal fund balance policy that requires it to maintain at least 50% of expenditures in the general fund, with which it has complied with historically. The city has chosen this level of reserves due to its relatively high reliance on sales tax revenues, a potentially volatile revenue stream.

Strong institutional framework

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

Countryside, Illinois--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	115			
Market value per capita (\$)	203,461			
Population			5,606	5,662
County unemployment rate(%)			11.1	
Market value (\$000)	1,140,600	944,982	905,448	
Ten largest taxpayers % of taxable value	17.6			
Strong budgetary performance				
Operating fund result % of expenditures		3.9	0.2	4.8
Total governmental fund result % of expenditures		19.8	18.5	25.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		88.0	79.8	80.9
Total available reserves (\$000)		12,197	11,199	10,835
Very strong liquidity				
Total government cash % of governmental fund expenditures		106	119	110
Total government cash % of governmental fund debt service		540	712	714
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		19.7	16.7	15.3
Net direct debt % of governmental fund revenue	299			
Overall net debt % of market value	5.3			
Direct debt 10-year amortization (%)	38			
Required pension contribution % of governmental fund expenditures		11.8		
OPEB actual contribution % of governmental fund expenditures		0.9		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2021 Update Of Institutional Framework For U.S. Local Governments

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

Copyright © 2022 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.standardandpoors.com (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.standardandpoors.com/usratingsfees.

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