MOODY'S INVESTORS SERVICE

CREDIT OPINION

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Update

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Oak Lawn (Village of) IL

Update - Moody's Downgrades Oak Lawn, IL's GO to Baa1; Outlook is Negative

Summary Rating Rationale

Moody's Investors Service has downgraded to Baa1 from A2 the rating on Oak Lawn, IL's outstanding general obligation unlimited tax (GOULT) debt. The village has $61.6 million in GOULT debt outstanding. The outlook is negative.

The downgrade to Baa1 reflects a narrow financial position combined with the village's very high and growing unfunded pension liabilities and sizeable gap between current pension funding levels and amounts that would keep unfunded liabilities from growing further. The rating also incorporates the village's sizable suburban tax base located twenty miles southwest of downtown Chicago (Ba1 negative) and its broad legal flexibility to raise local revenue.

Credit Strengths

» Large tax base tied into the Chicago metropolitan economy

» Institutional presence of the village's largest employer, Advocate Christ Medical Center

» Flexibility to raise revenue given the village's status as an Illinois home rule community

Credit Challenges

» Substantial tax base depreciation over the past five years

» Narrowed liquidity

» Rising pension costs due to an elevated pension burden will likely be a source of mounting operating pressure

Rating Outlook

The negative outlook reflects the expectation that rising costs, primarily to fund pensions, will place continued pressure on financial operations and liquidity, raising the possibility of future downward rating movement.

Factors that Could Lead to an Upgrade

» Significant and sustained improvement in fund balance and liquidity

» Moderation of the village's pension burden

Factors that Could Lead to a Downgrade

» Further narrowing of fund balance and liquidity

» Sustained tax base depreciation or a weakened socioeconomic profile

» Growth in the village's debt or pension burdens

Key Indicators

Exhibit 1

Oak Lawn (Village of) IL	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 4,518,777	$ 3,812,274	$ 3,468,158	$ 3,272,165	$ 3,044,524
Full Value Per Capita	$ 80,424	$ 67,445	$ 61,097	$ 57,438	$ 53,705
Median Family Income (% of US Median)	117.4%	115.5%	112.8%	111.6%	111.6%
Finances					
Operating Revenue ($000)	$ 50,799	$ 58,019	$ 57,482	$ 55,627	$ 66,814
Fund Balance as a % of Revenues	-7.3%	2.0%	9.0%	7.5%	6.8%
Cash Balance as a % of Revenues	4.3%	2.9%	11.0%	6.3%	4.9%
Debt/Pensions					
Net Direct Debt ($000)	$ 75,869	$ 100,158	$ 98,136	$ 95,276	$ 84,907
Net Direct Debt / Operating Revenues (x)	1.5x	1.7x	1.7x	1.7x	1.3x
Net Direct Debt / Full Value (%)	1.7%	2.6%	2.8%	2.9%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	3.3x	3.5x	3.9x	3.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	5.0%	5.8%	6.6%	7.9%

Source: Moody's Investors Service; Village's Audited Financial Statements; US Census Bureau

Detailed Rating Considerations

Economy and Tax Base: Mature Inner Ring Chicago Suburb

Oak Lawn's link with the larger Chicago region will support long-term economic stability. Despite the longer term prospect, the village continues to contend with a depreciating tax base. After peaking at $4.5 billion in 2011, the village's full valuation has declined by 35% through 2016 to $3.0 billion. As a home rule unit of government, Oak Lawn has the flexibility to increase its tax rate to offset declines in assessed valuation. The village's population remained fairly flat over the past couple decades and is currently estimated at just under 57,000. Median family income remains slightly above average at 111.6% of the national figure. The village benefits from easy access to downtown Chicago both by interstate and commuter rail line. The largest local employer is Advocate Christ Medical Center. The hospital recently expanded its trauma center and increased employment by 500 to 6,000 employees.

Financial Operations and Reserves: Narrow Financial Position Will be Pressured by Growing Pension Costs

Oak Lawn's financial position is narrow and, while operations will remain supported by the village's flexibility to raise revenue, growing pension contributions will pose an ongoing operational challenge. The village closed fiscal 2015 with an available fund balance (combined general and debt service funds) of $4.6 million or a narrow 6.8% of revenue. This is down from $5.2 million and 9% of revenue in fiscal 2013. The village closed fiscal 2016 on December 31, 2016 and, while audited information is not yet available, management estimates closing the year with no change in fund balance. The fiscal 2017 budget has not been approved at this time but management does not anticipate a reduction of operating reserves.

Fiscal 2015 pension contributions were up $1.6 million relative to fiscal 2014. Pension payments grew by an additional $1 million in fiscal 2016 and a further $1 million for the current fiscal 2017. Going forward, the village anticipates required pension contributions to grow by at least $1 million per year in order to comply with a state requirement that its police and fire plans reach a 90% funded ratio, on a reported basis, by 2040.

LIQUIDITY

The village's liquidity across major operating funds is also narrow, with fiscal 2015 operating cash at $3.3 million, or 4.9% of revenues. Cash is lower than the available fund balance due in part to a $2.1 million interfund receivable in the general fund owed by the Cicero Gateway Tax Increment Fund. Across all governmental funds, the village closed 2015 with $7.9 million in cash, or a slim 12% of total governmental operating revenue.

Debt and Pensions: High Long-Term Liability Burden Arising From Unfunded Pensions; Fixed Cost Burden Likely to Grow

Oak Lawn's debt burden is somewhat above average, but it's pension burden is high and growing. Net direct debt is 2.9% of full value and 1.3 times operating revenue. There are currently no plans to issue new debt. The three-year average Moody's adjusted net pension liability, our measure of a local government's pension burden, is 8.2% of full value and 3.6 times revenues. Total fixed costs, adjusted to account for early debt retirement in fiscal 2015, were 23% of operating revenue in fiscal 2015. However, had the village's pension contributions been sufficient to enable the plans to tread water, that is cover both current year service cost and interest accruing on accumulated unfunded liabilities, the fixed cost burden would rise to nearly 40% of revenue.

DEBT STRUCTURE

The village’s long-term debt profile consists of $61.6 million of outstanding GOULT bonds and a $19.4 million variable rate bank promissory note. The bank note matures with a balloon payment in August 2017. The village is exploring its options to refinance the note prior to maturity. The interest rate on the note resets monthly to LIBOR + 1.25%. A downgrade below Baa1, or its equivalent with another agency, is considered an event of default under the note agreement. This would expose the village to having to immediately repay the note, for which it currently does not maintain sufficient liquidity.

Principal retirement of the village's outstanding long-term debt is average with 71% of debt retired within ten years, though this includes the bullet maturity on the promissory note that we expect will be extended.

DEBT-RELATED DERIVATIVES

The village is not party to any swap or derivative agreements.

PENSIONS AND OPEB

Oak Lawn manages two defined benefit pension plans and is also a member of the Illinois Municipal Retirement Fund (IMRF), a defined benefit, mutli-employer agent plan. The Moody's ANPL referenced above reflects the use of a market-based discount rate to value the plans' liabilities. The city's three-year average ANPL in fiscal 2015 was $241 million. This is up 12% from the fiscal 2014 three-year average. Key sources of growth in the ANPL include investment returns that fell short of plan assumptions and village contributions that were far from sufficient to cover interest accruing annually on accumulated unfunded liabilities.

In fiscal 2015, the village contributed $4.9 million to its single employer police and fire plans, which are much larger than the IMRF plan. This was $10.7 million short of the amount needed for both plans to tread water, that is, forestall further growth in reported unfunded liabilities assuming other plan assumptions hold. The village's payment to the two plans grew to $5.9 million in the fiscal 2016 and is growing to $6.9 million in the current fiscal 2017. However, we expect that payments planned in fiscal 2017, as well as over the next few years, will continue to fall short of the amount needed to tread water. We therefore expect the village's unfunded liabilities, on both a reported basis and Moody's-adjusted basis, will continue to increase, necessitating further growth in annual contributions.

Unfunded OPEB liabilities do not pose a significant credit challenge to the village. Oak Lawn closed fiscal 2015 with an unfunded OPEB liability of $29.7 million, or 0.4 times operating revenue. The village's pay-go OPEB cost in fiscal 2016 was a modest 1.8% of revenue.

Management and Governance: Home Rule Status Grants Village Broad Legal Ability to Raise Revenue

Illinois cities have an institutional framework score of “A,” or moderate. Revenue predictability is moderate, with varying dependence on property, sales, and state-distributed income taxes. Revenue-raising ability is also moderate but varies. Home rule entities, like Oak Lawn, have substantial revenue-raising authority. Non-home rule entities are subject to tax rate limitations. Expenditures are moderately predictable but cities have limited ability to reduce them given costs for pension benefits that enjoy strong constitutional protections.

Given the state's fiscal stress, cuts in local government revenue sharing, particularly allocation of state income tax revenue, remains a potential operating challenge. State shared income taxes made up 8% of Oak Lawn's operating revenue in fiscal 2016. Local property taxes make up 21% of current operating revenue. Oak Lawn's home rule status provides it broad legal flexibility to raise revenue as it is not subject to property tax levy limits, has no statutory debt ceiling, and has the power to impose a variety of taxes without voter approval.

Legal Security

The village’s outstanding GOULT bonds are secured by the village’s pledge and authorization to levy a tax unlimited as to both rate and amount to pay debt service.

Use of Proceeds

Not applicable.

Obligor Profile

The Village of Oak Lawn is an inner ring Chicago suburb located approximately twenty miles southwest of downtown and with a population estimated at 56,690.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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