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Ratings

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Summary:
Wheeling, Illinois; General Obligation

Primary Credit Analyst:
John A Kenward, Chicago (1) 312-233-7003; john.kenward@spglobal.com

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

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Summary:

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Credit Profile		
US$5.81 mil GO rfdg bnds ser 2020 due 12/01/2032		
Long Term Rating	AA/Stable	New
Wheeling Vill GO		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the village of Wheeling, Ill.'s series 2020 general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA' long-term rating on the village's existing debt. The outlook on all ratings is stable.

Wheeling's GO bonds are secured by unlimited ad valorem property taxes. Officials will use series 2020 bond proceeds to refund previous debt for savings.

Credit overview

The full scope of economic and financial challenges posed by COVID-19 remains unknown, particularly its effect on sales tax revenue. As a result of what we consider the village's very strong operating reserves and liquidity, however, we think it is well-positioned to navigate COVID-19's economic and financial effect on the village during the next few fiscal years. If the duration of the COVID-19-related recession is prolonged, it could greatly affect the village's economy and state's ability to maintain current revenue sharing. We will continue to monitor the effects of COVID-19 and the related recession on village revenue and expenses.

Wheeling is an important retail and manufacturing center for Chicago's northwestern suburbs. With careful budgeting and an expanding economy, management has been able to build very strong reserves. Healthy surpluses have allowed the village to contribute extra funds to its police and firefighters' pensions in recent years; however, we consider the low funded levels of its public safety pension plans to be its greatest credit weakness.

Although our rating outlook timeframe is up to two years, because of current uncertainty surrounding COVID-19, our view of Wheeling's credit risks centers on the more immediate effects on the fiscal 2020 budget during the next six to 12 months.

The 'AA' rating reflects our view of the village's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results we expect will not be as strong in the near term relative to

fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 57% of operating expenditures;
- Very strong liquidity, with total government available cash at 72.4% of total governmental fund expenditures and 6.2x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 11.6% of expenditures and net direct debt that is 67.4% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but rapid amortization, with 84.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

The rating incorporates our view regarding health and safety risks posed by the COVID-19 pandemic, which we consider social risks and in line with the sector standard. We reviewed the village's environmental risks and determined they are in line with our view of the sector standard. We also reviewed governance risks, and consider them better than the sector standard because of management's very strong financial policies and practices, and successful economic development efforts.

Stable Outlook

Downside scenario

We could lower the rating if the village is not able to maintain balanced operations, resulting in substantially lower budgetary performance and flexibility.

Upside scenario

We could raise the rating if the village were to see ongoing and sustainable improvements in its economic metrics to levels consistent with credits at a higher rating, and if its debt and pension liability profile, which is currently very weak, improves materially, holding all other rating factors constant.

Credit Opinion

Strong economy

We consider Wheeling's economy strong. The village, with an estimated population of 39,064, is located in Cook and Lake counties in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 105.0% of the national level and per capita market value of $91,620. The village's estimated market value, including incremental value associated with tax increment financing districts, grew to $3.6 billion in 2020. The weighted-average unemployment rate of the counties was 3.8% in 2019.

Wheeling residents have easy access to downtown Chicago via Metra commuter train, which has a station in the village, and can access the broader MSA via Interstates 94 and 294. The village itself is also home to a number of manufacturers, restaurants, and service providers. The village also hosts a number of retailers, including Target and

Walmart, both of which have remained open during the COVID-19 pandemic.

The tax base in terms of equalized assessed valuation (EAV) increased 18.5% to $1.1 billion from levy years 2016 to 2019. Residential properties made up 52% of EAV in levy year 2018, while industrial accounted for 33% and commercial another 14%. We consider the property tax base to be very diverse, with the 10 largest taxpayers accounting for 11% of EAV for the 2018 levy year.

Very strong management

We view the village's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well-embedded, and likely sustainable.

Highlights include management's:

- Use of multiple years of historical data, and input from several outside sources, to project revenue and expenditures for each annual budget;
- Monthly budget-to-actual reports to the village board, with the ability to amend the budget as needed;
- Five-year financial projections beyond the current budget year, updated annually and shared with the board;
- Five-year rolling capital improvement plan that identifies funding for projects, also updated annually;
- Formal investment-management policy with monthly investment-holdings reports to the board;
- Detailed debt management policy; and
- Formal general-fund-balance policy that requires maintaining unassigned general fund reserves at 25% of annual operating expenditures, to meet cash flow needs.

Adequate budgetary performance

Wheeling's budgetary performance is adequate, in our opinion. The village had operating surpluses of 5.5% of expenditures in the general fund and of 2.2% across all governmental funds in fiscal 2019.

Our analysis accounts for our view of the village's budgetary performance in fiscal 2020, given the heightened uncertainty related to the COVID-19 pandemic and its impact on certain revenues. The village structured its fiscal 2020 general fund budget with a $722,000 surplus. However, with sales tax revenue coming in well below budget because of the pandemic and recession, and with $300,000 of waived liquor and business license revenue, management currently projects that the village will report a general fund shortfall of between $2.5 million and $3.5 million, excluding any funds the village might receive under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

We adjusted the village's general fund expenditures to account for routine transfers, and general and total governmental fund revenues to account for one-time revenues. As a home-rule municipality, it has significant revenue-raising flexibility. Key general fund revenue sources include sales and use taxes (37%), property taxes (35% of fiscal 2019 revenues), and income taxes received from the state (10%).

Given management's expectations for fiscal 2020, we believe that budgetary performance will remain adequate for the near term.

Very strong budgetary flexibility

Wheeling's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 57% of operating expenditures, or $21.8 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes $14.9 million (39.1% of expenditures) in the general fund and $6.8 million (18% of expenditures) that is outside the general fund but legally available for operations.

Budgetary performance consists of the assigned and unassigned general fund balance, and the capital equipment replacement fund's assigned fund balance, which management reports can be accessed to support general fund operations, if needed.

Given management's expectations for fiscal 2020, we believe that flexibility will remain very strong over the near term.

Very strong liquidity

In our opinion, Wheeling's liquidity is very strong, with total government available cash at 72.4% of total governmental fund expenditures and 6.2x governmental debt service in 2019. In our view, the city has strong access to external liquidity, if necessary.

Liquidity consists of $45.3 million of cash and investments held in the governmental and enterprise funds at the end of fiscal year 2019.

The village's periodic debt issuance over the past few decades supports the conclusion that it has strong access to external sources of liquidity, if needed.

The village has two variable-rate bonds outstanding purchased by Bank of America: series 2008 GO bonds ($10.9 million outstanding) and series 2009 GO bonds ($10 million outstanding). The purchase agreements for the bonds do not list events of default and do not include acceleration provisions that might pressure liquidity.

With respect to both of the variable-rate bonds, the village entered into interest-rate swaps with Bank of America to hedge against interest-rate fluctuations. In each case, the swap's notional amount and maturity correspond to the principal amount and maturity of the associated bonds. For the 2008 bonds, the village pays a synthetic fixed rate of 4.33% and receives a variable payment of 64% of the one-month USD-LIBOR-BBA rate plus 1%, while it pays a fixed rate of 3.92% for the 2009 bonds and receives a payment of 63.169% of the one-month USD-LIBOR-BBA rate plus 0.493%. The 2008 swap has a fair value of negative $730,000, and the 2009 swap has a fair value of negative $1.5 million as of Dec. 31, 2019. While the swaps pose some degree of counterparty and termination risk, we believe the potential effect on liquidity is minimal, as the village could cover the current negative fair market value of the combined swaps with cash on hand and still retain a very strong liquidity score and healthy overall cash position.

Given management's expectations for fiscal 2020, including the use of $5.2 million of capital project fund reserves for a new fire station, we believe that liquidity will remain very strong for the next few years.

Very weak debt profile

In our view, Wheeling's debt and contingent liability profile is very weak. Total governmental fund debt service is 11.6% of total governmental fund expenditures, and net direct debt is 67.4% of total governmental fund revenue.

Approximately 84.6% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The village has $49.3 million of GO bonds outstanding, including the series 2020 bonds. We consider $6.1 million of the village's debt to be self-supporting from water and sewer enterprise fund net revenue.

Management reports that the village currently does not have additional new-money debt plans, other than developers' notes associated with tax increment financing districts. Management reports that the village plans to pay for the construction of a new fire station with cash held in the capital projects fund and proceeds from the sale of a senior center.

Pensions and other postemployment benefits

- We believe that pension and OPEB liabilities are a source of budget pressure for the village, since the village is exposed to large unfunded liabilities and high fixed costs that we expect will continue to increase, despite additional contributions made by the village.
- In particular, the village's two single-employer, defined-benefit public safety pension plans are poorly funded, which, in combination with actuarial assumptions and methods that defer costs into the future, suggest that fixed costs will continue to rise. If not proactively managed, this could place increasingly greater pressure on operations and could lead to credit deterioration.
- The village funds its legacy retiree health care benefits on a pay-as-you-go basis, exposing it to some cost volatility.

The village participates in the following plans:

- Single-employer public safety plans covering police and firefighters: 69.6% funded and 60.5% funded (both as of Dec. 31, 2019), respectively, with net pension liabilities totaling $55.5 million across both plans.
- Illinois Municipal Retirement Fund (IMRF, a multiple-employer agent plan): 92.9% funded (as of Dec. 31, 2019), with a net pension liability of $4.8 million.
- A health care plan paid by the village for retirees hired before 1981, with other retirees allowed to stay on the village's group health insurance plan at their own expense: 0% funded with a total OPEB liability of $19.7 million.

The village made funding progress in its police and firefighter plans in fiscal 2019 over fiscal 2018. Although contributions were 83% (police) and 84% (firefighters) of our minimum funding progress metric, they were 112% (police) and 113% (firefighters), respectively, of static funding. The actuarially determined contributions (ADCs) for the public safety pensions are sized to exceed the minimum state requirement and reach 100% funding by 2040, which we consider a credit strength. The ADCs for the two public safety pensions increased nearly 44%, to $4.8 million, from fiscal years 2015 to 2019. We note that the village, unlike most cities and villages in Illinois, makes supplemental contributions to its public safety pensions above the ADCs. These additional contributions totaled $3.1 million over fiscal years 2015 through 2019 from general fund surpluses; management reports that these additional contributions are decided on an annual basis. The village has also made supplemental contributions to IMRF in recent years. We note that the 7.25% discount rate for the two public safety plans, and IMRF is above the 6% that we currently consider conservative under current market conditions.

Wheeling's combined required pension and actual OPEB contributions totaled 10.8% of total governmental fund expenditures in 2019. Of that amount, 9.3% represented required contributions to pension obligations, and 1.5% represented OPEB payments.

Strong institutional framework

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

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
- The U.S. Faces A Longer And Slower Climb From The Bottom, June 25, 2020

Ratings Detail (As Of July 30, 2020)		
Wheeling Vill GO		
Long Term Rating	AA/Stable	Affirmed
Wheeling Vill GO		
Long Term Rating	AA/Stable	Affirmed
Wheeling Vill GO rfdg bnds ser 2016 due 12/01/2022		
Long Term Rating	AA/Stable	Affirmed

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