Wheeling Village, Illinois

General Government
Full Rating Report

Ratings

Issuer Default Rating	AA+
Outstanding Debt	
General Obligation Bonds	AA+

Rating Outlook

Stable

Related Research

Fitch Rates Wheeling, IL's Ser 2016 GO Refunding Bonds AA+; Affirms IDR & GO Bonds; Outlook Stable (August 2016)

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The ‘AA+’ rating is supported by Wheeling Village’s broad legal ability to raise taxes, given its status as an Illinois home-rule municipality. The rating is also supported by Wheeling’s robust financial resilience and solid operating performance, which Fitch Ratings believes the village demonstrated during the most recent recession and recovery. A healthy fiscal reserve cushion and moderate long-term liability burden also support the rating at ‘AA+’.

Key Rating Drivers

Economic Resource Base: The Wheeling Village is a community of about 38,000 located 25 miles northwest of downtown Chicago in northeastern Illinois. Wheeling benefits from good highway access and is home to a commuter rail station that links the village directly to the city of Chicago and its broad employment opportunities. The village’s population grew 9% between 2000 and 2010, highlighting Wheeling’s desirability as an attractive place to reside for professionals commuting to work in Chicago.

Revenue Framework ('aaa' factor assessment): Fitch believes that Wheeling’s revenue growth prospects are solid based on expectations for continued economic growth in the village and broader Chicago metropolitan regions, and its revenue system. This system is supported by multiple sources of tax revenue given Wheeling’s status as an Illinois home-rule municipality.

Expenditure Framework ('aa' factor assessment): Fitch expects that Wheeling’s natural rate of expenditure growth will marginally outstrip its revenue growth rate in the absence of ongoing budget management to control costs. The village retains an adequate degree of expenditure flexibility, including reducing annual transfers to the capital and insurance funds, and delaying projects. Carrying costs are somewhat high at 22% of expenditures.

Long-Term Liability Burden ('aa' factor assessment): Wheeling’s long-term liability burden, as measured by Fitch, is relatively modest, equaling about 11.6% of its aggregate personal income. Management has acted to reverse the growth in future pension liabilities.

Operating Performance ('aaa' factor assessment): Fitch regards Wheeling’s financial resilience as robust. The village retains healthy reserve balances to cushion it against revenue declines, strong revenue-raising ability and adequate expenditure flexibility to shrink budget gaps. Fitch regards Wheeling’s budgetary management during the recovery as solid, as the village has maintained high fund balances while working to achieve balanced operations.

Rating Sensitivities

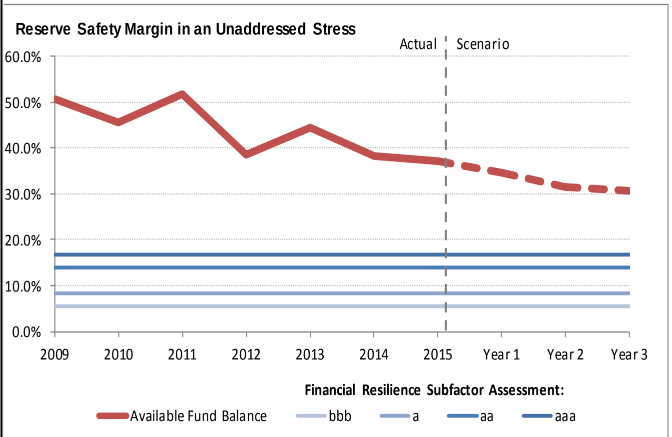
Rising Fixed Costs: The rating is sensitive to material changes in the fixed-cost burden, which could decrease in the absence of new money debt issuance or rise if pension liabilities increase due to poor investment performance.

Future Cost Management: The rating is also sensitive to changes in the village’s traditionally strong cost management practices. Failure to maintain reserve balances at levels above what Fitch views as necessary to maintain a fiscal resiliency assessment of ‘aaa’ could pressure the rating.

Wheeling (IL)

Scenario Analysis

v. 1.10 2016/06/22



Analyst Interpretation of Scenario Results:

Fitch views Wheeling's financial resilience as robust. The village has made modest draws on its sizable reserve cushion during periods of revenue pressure in order to supplement underperforming revenues and balance its budgets. Wheeling's management team has accompanied draws on reserves with concerted action to lower costs by reducing staff, cutting back on capital spending, reducing annual transfers to its capital equipment replacement fund (CERF) and liability insurance funds and holding some budgeted positions vacant. The village has also demonstrated a willingness to periodically raise its property tax levy and fees, when needed, to return budgets to structural balance using a phased, multi-year approach that conserves fiscal resources and allows for manageable reductions in service levels.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(5.5%)	0.1%	5.8%
Inherent Budget Flexibility	High		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	26,846	28,432	30,641	31,115	31,956	33,289	37,642	35,554	35,593	37,648
% Change in Revenues	-	5.9%	7.8%	1.5%	2.7%	4.2%	13.1%	(5.5%)	0.1%	5.8%
Total Expenditures	28,989	28,796	28,103	30,244	30,780	33,026	35,583	36,294	37,020	37,761
% Change in Expenditures	-	(0.7%)	(2.4%)	7.6%	1.8%	7.3%	7.7%	2.0%	2.0%	2.0%
Transfers In and Other Sources	29	31	8	73	1	49	58	54	55	58
Transfers Out and Other Uses	459	936	982	2,774	606	1,132	1,330	0	0	0
Net Transfers	(430)	(905)	(974)	(2,701)	(605)	(1,083)	(1,272)	54	54	58
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(2,573)	(1,269)	1,564	(1,830)	571	(820)	787	(686)	(1,372)	(55)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(8.7%)	(4.3%)	5.4%	(5.5%)	1.8%	(2.4%)	2.1%	(1.8%)	(3.7%)	(0.1%)
Unrestricted/Unreserved Fund Balance (General Fund)	14,913	13,586	15,080	12,713	13,948	13,092	13,703	13,017	11,644	11,589
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	14,913	13,586	15,080	12,713	13,948	13,092	13,703	13,017	11,644	11,589
Combined Available Fund Bal. (% of Expend. and Transfers Out)	50.6%	45.7%	51.8%	38.5%	44.4%	38.3%	37.1%	34.6%	31.5%	30.7%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	88.8%	44.4%	27.7%	16.6%	11.1%
Reserve Safety Margin (aa)	66.6%	33.3%	22.2%	13.9%	8.3%
Reserve Safety Margin (a)	44.4%	22.2%	13.9%	8.3%	5.5%
Reserve Safety Margin (bbb)	16.6%	11.1%	8.3%	5.5%	2.8%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	8/2/16
AA+	Downgraded	Stable	2/12/14
AAA	Revised	Stable	4/30/10
AA+	Upgraded	—	1/23/03
AA	Upgraded	—	1/20/99
AA–	Assigned	—	4/12/94

Credit Profile

Wheeling residents benefit from their close proximity to employment opportunities in Chicago, augmented by the village's own sizable commercial, manufacturing and trade sectors. Wheeling's unemployment rate consistently compares favorably with state and national rates. The village's labor force has been growing steadily since early 2010 following a 6% decline caused by the Great Recession. Wheeling's poverty rate is in line with the U.S. and state medians. Resident wealth levels are average.

Wheeling is home to a large population of commuters who work in Chicago, but is by no means merely a bedroom community of the city. Wheeling has a diverse local economy that includes private companies serving a variety of commercial sectors, including graphic design, multi-media marketing, healthcare and durable goods. The village is home to several hotels and a large number of eateries clustered around Milwaukee Avenue. In addition, Wheeling is the co-owner and operator of Chicago Executive Airport, the third-busiest airport in Illinois after O'Hare and Midway.

The village experienced a 38% decline in taxable property assessed valuations (AVs) from fiscal years 2010–2014 (the decline in fiscal 2014 was a high 16%). Taxable AV grew 2.3% in fiscal 2015, the first increase in AV since the recession. According to management, the Cook County assessor's office recently informed the village that it should anticipate a median 16% increase in AV for tax year 2016, stemming from a recovery in the local housing market.

Revenue Framework

Wheeling's status as a home-rule municipality affords it significant revenue-raising flexibility, exempting it from the statewide property tax levy limitation and thereby allowing it to offset declines in AVs by raising the levy, essentially without limit. Home-rule status provides Wheeling with the ability to impose a variety of taxes and fees that are unavailable to non-home-rule municipalities in Illinois. Property taxes compose about 30% of general fund revenues, followed by sales taxes (29%) and the local portion of state income taxes (18%). Minor taxes, including a video gaming tax and hotel/motel tax, among others, accounted for just below 9% of general fund revenues in fiscal 2015.

Revenues expanded at above the rate of U.S. GDP growth for the 10-year period from 2004–2014 to yield a combined 10-year compound annual growth rate (CAGR) of 4.1%. The CAGR factors in revenue growth that occurred as a result of actions taken by management. The natural rate of revenue growth would have been lower without these actions — above the U.S. inflation rate but below the pace of GDP growth. Wheeling's revenue growth prospects continue to be favorable given its vibrant local economy, which is marked by high sector diversity and steady new development, as well as its proximity to Chicago.

Wheeling's independent legal ability to raise revenues is extremely broad, as its status as an Illinois home-rule municipality exempts it from the statewide property tax levy cap and allows it to levy a variety of other local, minor taxes not available to non-home-rule communities. However, economic and political developments are likely to place some natural constraints on management's willingness to raise taxes and fees. Nevertheless, the village governing board has demonstrated a high degree of willingness in recent years to raise property and sales taxes and impose new taxes and fees to achieve balanced operations across its governmental funds.

Expenditure Framework

Wheeling's general fund spending is heavily concentrated on public safety (69% of fiscal 2015 expenditures), which consists of police and fire protection services for residents. In addition to police

Applicable Criteria

U.S. Tax-Supported Rating Criteria (April 2016) and fire, Wheeling offers public works, water and sewer services, some senior services and a variety of recreational activities. Water and sewer operations are run out of enterprise funds separate from the general fund. The village owns and operates the Chicago Executive Airport with the neighboring city of Prospect Heights.

Spending growth in the absence of policy actions will likely be in line with, to marginally above, the natural rate of revenue growth, requiring regular budget management. Spending is driven by labor agreements with the five bargaining units that dictate future salary and fringe benefit payments. Spending is also linked to the village's high level of cash-funded capital spending, which Wheeling cut back on in recent years to control costs. High levels of pay-go funding are a positive for Wheeling, as it can cut back capital spending without laying off workers or reducing core services.

The village has a moderate degree of control over expenditure growth, given that service and staff levels are still recovering from cuts made in the aftermath of the Great Recession, which reduced staff by 15% and led to prolonged reductions in capital funding. Management is slowly restoring essential positions and began fully funding capital fund deposits in fiscal 2016, but it believes the ability to reduce costs is presently lower versus prior to the recession. Increased pension funding is a priority for the village, and this will lead to modest increases in pension funding costs for the foreseeable future. The village overfunds its actuarially calculated annual pension payment.

Illinois is a strong labor state. Most unions have access to binding arbitration, and non-uniformed employees have the right to strike. Four of the five bargaining units recently agreed to extend contracts from May 2016 to April 2019. The unions representing firefighters, police officers and police sergeants; community service officers; and record clerks agreed to pay increases of 2.5%, 2.5% and 2.75%, respectively, while the village's emergency dispatchers agreed to increases of 1.25%, 2.25% and 2.5% for the three years of the contract.

Wheeling's fixed carrying costs are moderately elevated, amounting to 22.3% of governmental spending in fiscal 2015. Carrying costs consist of spending on debt service (11.9%), pension contributions (8.7%) and other post-employment benefits (OPEB; 1.7%). Fixed costs are likely to increase moderately as the village increases pension funding to meet its target of being 100% funded by 2040. However, Wheeling could reduce annual pension contributions at any time to fund only the required ARC payments, thereby providing a modicum of additional financial flexibility. Debt service is scheduled to rise to $5.7 million in fiscal 2023 from $3.9 million in fiscal 2016, reflecting rapid amortization, although the village has no plans to issue additional new money debt.

Long-Term Liability Burden

Wheeling's long-term liability burden is moderate with net overall debt and unfunded pension liabilities together accounting for 11.6% of the village's combined personal income. The village's overall burden of direct debt ($63 million) and overlapping debt ($82 million) accounts for the majority (68%) of its long-term liabilities, while its unfunded pension liability as adjusted by Fitch accounts for $68 million, or 29% of the total. Amortization of direct debt is rapid with 67% of principal to be paid off within 10 years following the current bond sale.

Wheeling participates in two single-employer defined benefit pension plans for police and fire, and in the Illinois Municipal Retirement Fund (IMRF), the state's multi-employer retirement system, for other employees. The village consistently funds its actuarially determined annual pension contributions for all plans and contributed above its required amounts for police and fire in each of the past seven years. Wheeling's three pension plans had a collective assets to liabilities ratio of 68% in fiscal 2015, using the 7.5% discount rate the plans assume. Using Fitch's slightly more conservative 7% discount rate assumptions, the collective funded ratio of the plans was 65% in fiscal 2015.

The village closed its OPEB plan in 1981. The village typically pays the full annual OPEB ARC but has not established a trust to fund the remaining liability of $18 million at this time. Fitch regards Wheeling's OPEB liability as modest.

Wheeling presently has two series of synthetically fixed-rate bonds outstanding that represent 43% of its direct debt burden. The village pays fixed rates of 4.32% and 3.92%, respectively, on its series 2008 and 2009 bonds under a swap agreement with the counterparty, Bank of America, N.A.

Operating Performance

Fitch views Wheeling's financial resilience as robust. For details, see "Scenario Analysis" on page 2.

Wheeling funds its capital program with dedicated revenue sources that include a motor fuel tax, gas and electric use tax, and water and sewer fees. Management's stated policy is to transfer approximately $1 million per annum to the village's CERF to fund a substantial proportion of the capital program. Between 2009 and 2015, the village reduced annual transfers to the CERF by 50% to retain moneys to finance general fund operations. It restored full transfers to the CERF in the fiscal 2016 budget.

Wheeling's operations have produced general fund deficits in four of the past seven fiscal years with the most recent draw on reserves a low $820,000 operating deficit in fiscal 2014. During this time frame, management has worked to gradually bring the general fund back to structural balance after large deficits in 2009 and 2010 due to steep drops in sales and income taxes. The fiscal 2015 budget was balanced with an assumed modest draw on general fund balance; however, management achieved a $1.8 million operating surplus before transferring $1 million to increase funding for the village's pension plans. Wheeling achieved a final, audited surplus of $787,000 in the general fund for fiscal 2015, bringing available reserves to $13.7 million, or 37% of expenditures, comfortably complying with a formal policy to maintain an unassigned general fund balance of at least 25% of expenditures.

The fiscal 2016 budget was balanced with an 11% property tax levy increase and no assumed use of fund balance. The bulk of the tax levy increase went to fund full contributions to the CERF and liability insurance fund, and anticipated salary increases under the new labor contracts. General fund appropriations grew 1.8% over fiscal 2015. Revenues and expenditures are tracking close to budget for fiscal 2016, and the village anticipates balanced operations.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.