

RatingsDirect®

Summary:

South Chicago Heights, Illinois; General Obligation

Primary Credit Analyst:

Helen Samuelson, Chicago + 1 (312) 233 7011; helen.samuelson@spglobal.com

Secondary Contact:

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

Table Of Contents

Credit Highlights

Outlook

Related Research

Summary:

South Chicago Heights, Illinois; General Obligation

Credit Profile		
South Chicago Hgts Vill GO (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Credit Highlights

- S&P Global Ratings raised its underlying rating to 'A+' from 'A' on South Chicago Heights, Ill.'s outstanding series 2015 general obligation (GO) bonds.
- The outlook is stable.
- The raised rating reflects our view of the village's stronger general fund reserve levels following officials' efforts to balance its budget through sustainable cost controls and boosted by one-time revenue.

Security

The bonds are secured by South Chicago Heights' unlimited tax GO pledge.

Credit overview

South Chicago Heights is a mature community located in Cook County, approximately 28 miles south of downtown Chicago. Growth prospects within the community are centered around redevelopment of vacant properties, such as a bowling alley that was recently converted to a cannabis growth facility. Given the village's somewhat limited growth prospects, tax burden affordability is a key budget consideration, despite voters recently passing a referendum that grants the village with home rule powers that gives it more expansive debt and taxing flexibility.

We anticipate at least adequate budgetary performance results for fiscals 2023 and 2024. Officials currently estimate fiscal year Dec. 31, 2023, will end with a \$350,000 general fund surplus. The 2024 budget is balanced with no use of reserves.

Given the village's relatively tepid property tax base growth, property tax revenue (30% of general fund revenue) has historically exhibited modest growth. The village has recently seen stronger performance in its state shared income tax revenue and sales tax revenue (both state shared and home rule), which together account for 41% of total general fund revenue. The positive tax revenue performance and nonrecurring federal stimulus funds (\$545,000 in total, used for revenue replacement) and sale of properties, coupled with cost controls, generated significant general fund surpluses, and increased reserves in recent fiscal years.

We believe the village's rising salary expenses and pension contributions from large pension liability are a long-term credit consideration. These expenses have the potential to crowd other budget-line items, particularly during weaker

revenue climates, but we expect officials will remain proactive in managing these needs and aligning them with revenue.

We adjusted the general fund balance to account for a roughly \$1.2 million loan to the water fund, but budgetary flexibility and overall liquidity remain very strong. Officials have gradually increased water rates to improve the viability of the water fund, which we believe lessens the need for additional general fund subsidies, though it may take time before the loan is repaid.

Although overall debt burden is high in South Chicago Heights, the village itself has a relatively small debt portfolio, consisting of only \$1.5 million of GO debt outstanding and \$1.0 million of water-fund related debt. Debt amortizes rapidly and GO debt service comprises only a small share of the budget. Officials currently have no plans to issue additional debt at this time.

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

- Proximity to jobs within the Chicago metro area;
- Very strong liquidity and general fund reserves, which we expect will remain at, or higher than, its fund balance target;
- Standard financial management assessment, supported by sound budget practices. Village officials construct the budget using three years of historic financial data as well as outside sources of information. The board receives monthly budget to actual financial reports. The village does not produce any formal forecasting or capital planning. The village's investment policy mirrors state statutes, and the board receives monthly reports. The village's reserve target is equal to 90 days of expenditures, which it is currently meeting. The institutional framework for home rule communities in Illinois is strong;
- Manageable direct debt burden with no additional debt plans at this time, and a large unfunded pension obligation for which we expect costs will increase as the village works toward reaching the Illinois pension code's funding requirement. For more information, see "Pension Spotlight: Illinois," published June 26, 2023, on RatingsDirect.

Environmental, social, and governance

We believe that South Chicago Heights' governance risks are slightly elevated insofar as the village is exposed to accelerating pension costs from its police pension plan, which could pressure budgetary performance. We view South Chicago Heights' environmental and social factors as neutral within our credit rating analysis.

Outlook

The stable outlook reflects our expectation that the village will maintain very strong reserves and operational balance while absorbing growing pension contributions into its budget.

Downside scenario

We could lower the rating if the village's financial performance deteriorates and budgetary flexibility is compromised.

Upside scenario

We could raise the rating if the village's economy improves, its budget remains balanced, and pension funding levels show steady improvement, all other credit factors remaining stable.

South Chicago Heights, Illinois--key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Weak economy				
Projected per capita EBI % of U.S.	57			
Market value per capita (\$)		51,082	55,530	49,774
Population		3,969	3,935	3,972
County unemployment rate(%)	5.0			
Market value (\$000)		202,743	218,511	197,703
Ten largest taxpayers % of taxable value	7.9			
Adequate budgetary performance				
Operating fund result % of expenditures		29.0	4.9	13.1
Total governmental fund result % of expenditures		25.1	7.6	21.5
Very strong budgetary flexibility				
Available reserves % of operating expenditures		75.0	42.5	44.4
Total available reserves (\$000)		4,408	2,666	2,356
Very strong liquidity				
Total government cash % of governmental fund expenditures		128	88	82
Total government cash % of governmental fund debt service		4244	2424	1784
Adequate management				
Financial Management Assessment	Standard			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.0	3.6	4.6
Net direct debt % of governmental fund revenue	20	22	23	28
Overall net debt % of market value	15.0	15.0	11.8	12.4
Direct debt 10-year amortization (%)	87			
Required pension contribution % of governmental fund expenditures		7.6		
OPEB actual contribution % of governmental fund expenditures		5.3		
Strong institutional framework				

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

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed

Summary: South Chicago Heights, Illinois; General Obligation

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.