S&P Global
Ratings

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Summary:

South Chicago Heights, Illinois; General Obligation

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Credit Profile		
South Chicago Hgts Vill GO (BAM)		
Unenhanced Rating	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 Height's 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 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.