FitchRatings

RATING ACTION COMMENTARY

Fitch Rates the Village of Romeoville (IL)'s ULTGO Bonds 'AA'; Outlook Stable

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Fitch Ratings-New York-27 August 2019: Fitch Ratings has assigned a 'AA' rating to the Village of Romeoville (IL)'s $20 million (taxable) unlimited tax (ULTGO) general obligation bonds series 2019B.

Additionally, Fitch has affirmed the 'AA' ratings on the following:
--The village's Issuer Default Ratings (IDR);
--$104 million of ULTGO bonds.

The Rating Outlook is Stable.

Bond proceeds will finance athletic center facility construction and improvements and amenities within the downtown area tax increment financing redevelopment area. The bonds will sell via competition on September 11.

SECURITY
The bonds are secured by the village's full faith and credit and its ad valorem tax, without limitation as to rate or amount and are payable from incremental property tax revenues derived from the tax increment financing redevelopment area.

ANALYTICAL CONCLUSION

The 'AA' IDR and ULTGO ratings reflect the city's favorable revenue framework and demonstrated financial resilience during economic downturns. The village has a moderate long-term liability burden relative to the economic resource base and moderate carrying costs for pension, debt and other post-employment benefits (OPEB).

Economic Resource Base
Romeoville is located in Will County, approximately 32 miles southwest of downtown Chicago and nine miles north of Joliet and serves as a commercial distribution center for the metropolitan area. The village's population was 39,624 in 2017. The village's population grew significantly from 2000 to 2010, primarily from annexation and new development, but growth has been stagnant in recent years. Wealth levels are mixed compared to county and state, but provide adequate support for governmental funding.

KEY RATING DRIVERS

Revenue Framework: 'aa'
Fitch expects solid revenue growth prospects based on recent trends. The village's home rule status affords it access to a variety of taxes and fees for revenue-raising options, many of which are without legal limitations.

Expenditure Framework: 'aa'
Fitch expects the natural pace of spending growth to be in line with natural revenue growth. Expenditure flexibility is solid and carrying costs are moderate.

Long-Term Liability Burden: 'aa'
The long-term liability is moderate when measured against the resource base, at about 18.8% of personal income after the current issuance.

Operating Performance: 'aaa'
The village's ample reserves and superior budget flexibility provide exceptionally strong gap-closing ability to withstand economic downturns.

RATING SENSITIVITIES
Increase in Long-term Liabilities: Substantially increased borrowing by the village or overlapping entities, while not anticipated, could put negative pressure on the rating.

CREDIT PROFILE

In close proximity to three major interstate highways (I-55, I-80, and I-355), the village has become a commercial distribution center for the southern portion of the Chicago metropolitan area. The addition of an Amazon fulfillment center in fiscal 2017 has added approximately 1,600 jobs, making it the top employer in the village. Typical of Illinois municipalities, recovery in the tax base had lagged the national trend; however equalized assessed valuation (EAV) demonstrated a 4.6% average annual increase from 2016 through 2019. The local economy does have a slightly elevated degree tax payer concentration, with the top 10 taxpayers accounting for 19.2% of EAV and the top payer, PDV Midwest Refining (Citgo), accounting for 10%.

Revenue Framework
General fund revenues in fiscal 2018 were mainly comprised of property, sales, income and other taxes. In fiscal 2018, property taxes represented 21% of general fund revenues, sales, income and other taxes accounted for 32%, and intergovernmental revenue accounted for 26%. The village's reliance on sales and income taxes makes the revenue stream somewhat vulnerable to economic variability; however, the village typically responds to revenue declines by raising offsetting revenues.

Growth prospects for revenues are solid, with historical average annual growth exceeding the national inflation rate and GDP. The growth has been driven in part by policy actions including various tax increases over the years to offset expected declines in the economically sensitive sales and income tax revenues. Absent policy actions, Fitch believes that revenue growth would have exceed the rate of inflation, but below GDP over the 10 year period given the significant increase in retail activity including the recently opened Amazon distribution center.

The village has ample independent legal ability to raise revenues. The village is a home-rule unit of government, and as such, enjoys the ability to raise or impose a wide variety of taxes and fees, many of which are legally unlimited.

Expenditure Framework
In fiscal 2018, approximately 47% of spending is for public safety, followed by 25% for general government, 21% for public works and 14% for capital expenditures.

The natural pace of spending growth over time should remain in line with, or marginally above, revenue growth prospects given underlying economic trends. The village manages the majority of its labor costs through three labor contracts including police, fire and administrative unions. The village's labor relations are satisfactory, with contractual agreements typically reached by negotiation, without resorting to strikes or arbitration.

The village recently settled the fire fighter's contract with cost of living increases that approximate the national rate of inflation. Employee benefit costs are expected to remain relatively flat as a result of health plan savings.

The village maintains solid expenditure cutting flexibility, supported by the inclusion of discretionary items in the operating budget and moderate carrying costs for debt service, pension contributions and other post-employment benefits (OPEB) expenses at about 17% of governmental spending. General fund capital spending, which accounted for approximately 14% of fiscal 2018 discretionary expenditures and fiscal 2019 estimated spending results includes a $4.5 million transfer to the facility construction fund. These funds provide additional flexibility because the village has the ability to delay projects in the event of a revenue decline.

Long-Term Liability Burden

The long-term liability burden for total debt (direct and overlapping) and adjusted net pension liability is moderate; accounting for approximately 18.8% of personal income, including the current issue. Fitch expects the long-term liability ratio to remain relatively stable, given the small pension liability relative to total long-term obligations. The borrowing by overlapping entities is difficult to predict and could drive liabilities higher. The village's future borrowing plans are modest because a significant amount of capital expenditures are completed on a pay-go basis. Future debt plans include water and sewer, roads and economic development projects.

The pension liability, as adjusted by Fitch to reflect a 6% discount rate, represents less than 17.6% of the long-term liability burden. The village participates in three pension plans, and fully funds the actuarially-based contribution for all three. The plans include those for police and firefighters, which are single employer plans for public safety employees, and the village's portion of the Illinois Municipal Retirement Fund, a state-managed agent multi-employer plan for all other employees. The village's ratio of net assets to liabilities is 66% when adjusted to a more conservative 6% investment return assumption. The village's OPEB liability is nominal at 0.3% of personal income.

The current taxable general obligation bond offering will provide funding for additions to the existing Edward Hospital Athletic and Event Center in the downtown area, which includes plans for a new basketball courts, fitness center and other recreational amenities. The bonds are backed by the village's ad valorem property taxes and are expected to be paid from revenue derived from the Downtown Area TIF when available.

Operating Performance

The village's home-rule revenue-raising power and solid expenditure flexibility combine with its solid reserve levels provide ample capacity to close recessionary revenue gaps. Fitch expects that the village would be somewhat more vulnerable to revenue declines in a downturn than is suggested by Fitch's FAST model, which does not correct for the offsetting policy actions the village undertook during prior recessions. While Fitch expects that in a downturn scenario, use of reserves might be necessary in the short-term, the village also would employ its budgetary flexibility to maintain ample financial resilience throughout the economic cycle.

The village budgets conservatively, which has allowed it to maintain strong reserves as protection against future cyclical revenue declines. The village has grown reserves considerably since 2010. General fund reserve were 58.5% of spending in fiscal 2018, well above its long-term target of maintaining a fund balance equal to 25% of the general fund budget. The village had three years or healthy general fund surpluses from fiscal 2016 through 2018 and anticipates another surplus for fiscal 2019. The village estimates a $5 million operating surplus in fiscal 2019, which is expected to boost general fund balance by approximately $678,231, and provide approximately $4.5 million in additional funds to the facility construction fund for future cash funded capital projects.

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Additional information is available on www.fitchratings.com

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)

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