S&P Global Ratings
Mount Prospect, Illinois
April 2018

S&P Global Ratings assigned its 'AA+' long-term rating to Village of Mount Prospect, Illinois series 2018A general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the village's GO bonds outstanding. The outlook is stable.

The bonds are general obligations of Mount Prospect, for which the village will pledge its power to levy direct ad valorem taxes, without limit as to rate or amount, for their repayment. We understand Mount Prospect will use bond proceeds to fund water transmission and distribution main improvements and sewer collection system improvement, development areas within the newly established tax increment financing (TIF) district, and capitalized interest through Dec. 1, 2020, for the TIF development portion of the debt service. The village plans to pay for the debt service from water and sewer fund revenues and TIF district revenues. However, it will not abate the property tax unless there are sufficient funds on hand to pay debt service.

<u>The rating reflects the following characteristics of the district:</u>

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;

Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2016;

Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 38% of operating expenditures;

Very strong liquidity, with total government available cash at 50.6% of total governmental fund expenditures and 7.0x governmental debt service, and access to external liquidity we consider strong;

Very weak debt and contingent liability position, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 86.0% of total governmental fund revenue, as well as significant medium-term debt plans and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and

Strong institutional framework score.

<u>Strong economy</u>

We consider Mount Prospect's economy strong. The village, with an estimated population of 52,823, is located in Cook County in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider broad and diverse. The village has a projected per capita effective buying income (EBI) of 121% of the national level and per capita market value of $91,958. Overall, the village's market value grew by 17.9% over the past year to $4.9 billion in 2017. The county unemployment rate was 6.2% in 2016.

Residents have access to employment opportunities throughout the Chicago metropolitan area. Within Mount Prospect, its two largest employers are Caremark Illinois Specialty Pharmacy, LLC (850 employees) and Robert Bosch Tool Corp. (600 employees). Nearby are large employers such as Allstate Insurance Co., Northwest

Community Hospital, and UL LLC. The village's significant increase in assessed value (AV) and market value in 2017 was due to annexed land, increased overall property values, and the triennial reassessment. Officials note there is new development, much of it commercial, within the village. This and other community development initiatives support Mount Prospect's strong economy. We anticipate the village's economy will remain strong during the next few years.

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.

Mount Prospect has adopted formal policies that address, among other things, investments, debt levels, and fund balance. The investment policy is more restrictive than state statutes. The debt policy includes guidelines for debt service as a percent of expenses and per capita. The general fund balance policy requires a minimum reserve of 20% of expenditures, and officials target 25%. The levels in this policy meet the village's cash-flow needs and allow it to weather any fluctuations in major revenue sources. Mount Prospect produces five-year, long-term financial projections and capital plans, which it updates annually. Management also provides monthly reports to the board on budgeted-to-actual performance and investment reports.

Strong budgetary performance

Mount Prospect's budgetary performance is strong in our opinion. The village had surplus operating results in the general fund of 5.5% of expenditures, and balanced results across all governmental funds of negative 0.3% in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2016 results in the near term.

After adjusting for $1.24 million of one-time transfers out of the general fund, Mount Prospect achieved surplus of $2.70 million in fiscal 2016 (year ended Dec. 31) due to positive budget variances on both revenues and expenditures. For unaudited fiscal 2017, we expect the village to post a 1.4% surplus, or $715,000 in the general fund, which represents a better-than-budgeted result as the village had adopted a break-even result. Driving this performance are stronger sales tax revenues and savings with regard to capital expenditures. With regard to total governmental funds, management indicates that it expects to post a positive result across all governmental funds. For fiscal 2018, the village preliminarily budgeted a deficit in the general fund of $1.5 million, or 2.8% of general fund expenditures. This deficit is due to a planned $750,000 transfer to the capital projects fund and the expected use of reserves to make a portion of its pension payment. Despite this planned use of reserves, we understand the village expects to outperform its budget and post a smaller drawdown. With regard to fiscal 2019, we understand that the village may use reserves to fund an additional $400,000 for its pension plan and may spend $750,000 for a discretionary capital transfer. Given these conditions, we believe the village's financial performance will remain strong-to-adequate.

Very strong budgetary flexibility

Mount Prospect's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 38% of operating expenditures, or $18.5 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.

We anticipate that Mount Prospect’s total general fund reserves will likely be approximately $17.7 million by the end of fiscal 2018, or 32% of expenditures, as part of its planned draw down to align itself with its reserve policy of 20%-30% of expenditures. Given these conditions, we believe the village's budgetary flexibility will remain very strong.

Very strong liquidity

In our opinion, Mount Prospect's liquidity is very strong, with total government available cash at 50.6% of total governmental fund expenditures and 7.0x governmental debt service in 2016. In our view, the village has strong access to external liquidity if necessary.

Mount Prospect has entered three direct purchase loan agreements with JPMorgan Chase Bank NA. The village also entered one direct-purchase loan agreement with Mount Prospect State Bank, a branch of Glenview State Bank. The loan documents contain no accelerations. The loans are fixed-rate and there are no bullet maturities in the amortization schedules.

We believe Mount Prospect has strong access to external liquidity based on its periodic issuance of GO bonds. We do not expect the village's liquidity position to weaken in the near term.

Very weak debt and contingent liability profile

In our view, Mount Prospect's debt and contingent liability profile is very weak. Total governmental fund debt service is 7.2% of total governmental fund expenditures, and net direct debt is 86.0% of total governmental fund revenue. Negatively affecting our view of the village's debt profile is its significant medium-term debt plans.

We revised the village's debt profile assessment to very weak from weak based on the village's plans to issue a significant amount of new money debt within the next few years. The village plans to issue $32.7 million for new police station and new fire station another $18.5 million for continued sewer improvements. In addition, we no longer consider the village's debt profile to benefit from rapid amortization, as it amortizing 63% of its outstanding debt within the next few years.

In our opinion, ***a credit weakness is Mount Prospect's large pension and OPEB obligation***, without a plan in place that we think will sufficiently address the obligation. Mount Prospect's combined required pension and actual OPEB contributions totaled 10.4% of total governmental fund expenditures in 2016. The village made 103% of its annual required pension contribution in 2016. The funded ratio of the largest pension plan is 56.2%.

Mount Prospect's approach to funding its pension obligation for its police and fire plans is more conservative than the statutory requirements. The annual contributions are based on reaching 100% funding by 2040, which exceeds the statutory requirement of 90% funding by 2040. This results in the village's annual contributions being about $500,000 higher than the statutory requirements. We view the contributions as large, and while the funded levels marginally increased from 2016, the plan to pay 100% of the actuarially determined contribution (ADC) will not materially improve the funding levels for many years. Therefore, we do not believe the current plan is sufficient to materially improve funding levels in the foreseeable future.

We view the funded ratio of the IMRF plan, which we estimate as the plan fiduciary net position as a percent of the total pension liability, as adequate at 87%. The plan fiduciary net position as a percentage of the total pension liability for the police and fire plans are 56% and 59% funded, respectively; we consider these levels low. We anticipate that it will take time for the plans' funding levels to improve significantly.

Mount Prospect allows retirees to stay on its medical plan. However, all retirees pay 100% of the premium. The $10.5 million liability as of a Dec. 31, 2014, actuarial study is an implicit liability. The village provides the liability on a pay-as-you-go basis. It is a member of the Intergovernmental Personnel Benefit Cooperative, which helps keep its health care premium costs smooth year-over-year.

Strong institutional framework

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

Outlook

The stable outlook reflects our expectation that Mount Prospect will maintain its very strong liquidity and budgetary flexibility. The outlook also reflects our opinion of the village's strong economy, benefiting from its participation in the broad and diverse Chicago MSA; and its very strong management. We do not expect to change the rating during the next two years.

Upside scenario

We could raise the rating if Mount Prospect improved its economic measures and debt profile, holding all other credit factors remain equal.

Downside scenario

We could lower the rating if budgetary performance were to weaken in a manner that weakens the village's flexibility or liquidity.