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Ratings

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Summary:

New Lenox Village, Illinois; General Obligation

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Credit Profile		
US$66.17 mil GO bnds ser 2024 due 12/15/2044		
Long Term Rating	AA+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to the Village of New Lenox, Ill.'s anticipated $66.17 million series 2024 general obligation (GO) bonds.
- The outlook is stable.

Security

The bonds are secured by the village's unlimited-tax GO pledge to levy ad valorem property taxes. While the village will levy for debt service annually, officials anticipate debt service will be paid from sales, amusement, and hotel tax revenue.

Bond proceeds will finance development of a multi-sport fields complex, to be owned and operated by the village and the New Lenox Park District, and associated infrastructure including utilities, roadways, and parking lots.

Credit overview

New Lenox benefits from access to the greater Chicago economy, supporting steady residential growth and rising income levels. The village plans for extensive growth over upcoming years, including at least 400 new housing units, supporting our expectation that our assessment of the village's economy will likely remain very strong. Significant revenue growth, particularly for sales taxes, have contributed to the village's fifth consecutive general fund surplus in fiscal 2023, resulting in an available fund balance that exceeds 100% of operating expenditures. The fiscal 2024 and 2025 general fund budgets reflect $20.3 million and $20.1 million transfers out for one-time capital projects including land acquisition for the multi-sports field complex, a children's museum, and public space improvements. Given current reserve levels are extremely strong following several years of large surpluses, we do not expect these transfers will weaken our view of the village's very strong budgetary flexibility, as management is committed to maintaining total available reserves well above the formal reserve policy of 25% of expenditures post-transfers. Management reports year-end fiscal 2024 operating results show positive building permit, sales and income tax, and interest earning variances, with expenditures in line with budget, leading to an unaudited $13.6 million (58%) operating surplus before the $20.3 million transfer out.

New Lenox may issue additional debt beyond the two-year horizon for the second phase of the multi-sports field complex, which would involve construction of an indoor sports facility. The amount and timing of this issuance will be contingent on the first phase of sports complex generating sufficient revenue, primarily from sales tax, in upcoming years. The first phase of the multi-sports field complex is expected to open for use in summer 2025. Management reports conservative revenue projections show the facility could operate with a slight surplus in its first year based on current demand for scheduling sports events while considering the hotel and commercial projects planned for surrounding areas.

The village's primary credit weakness is its very weak debt metrics, with a net direct debt ratio as a percent of total revenue over 460%; however, $94 million of the village's total $185 million of net direct debt is a Water Infrastructure Finance and Innovation Act (WIFIA) loan secured by the village's GO pledge. While it is expected that this loan will be fully repaid with sewer system revenues and annual rate increases are planned, we consider it levy-supported debt until the sewer system demonstrates sufficient debt service coverage over the next three audited fiscal years. Nevertheless, downside rating pressure could emerge if future debt issuance or insufficient utility revenue coverage leads to persistently high debt metrics relative to peers.

The rating further reflects our view of New Lenox's:

- Steady growth in assessed values based on recent strong residential development spurred by New Lenox's location within commuting distance of downtown Chicago;
- Fiscal years 2024 and 2025 budgeted transfers out of general fund balance, following five consecutive large operating surpluses, with the expectation that available reserves will remain well above the formal 25% minimum fund balance policy;
- Forward-looking management with good financial policies and practices, including comprehensive long-term planning for capital projects and general operations, with a strong institutional framework score; and
- Very weak debt and contingent liability profile, with a large unfunded pension for its police pension plan, which could place greater pressure on operations and lead to credit deterioration if the unfunded liability continues to grow. The single-employer, defined-benefit plan was 64.9% funded (as of April 30, 2023), with a $17 million net pension liability using a 6.75% discount rate. (For more information on our views on such pension plans, see "Pension Spotlight: Illinois," published June 26, 2023, on RatingsDirect.)

Environmental, social, and governance

We analyzed New Lenox's environmental, social, and governance factors relative to the village's economy, budgetary outcomes, management, and debt and liability profile. In our view, New Lenox's governance risks pertaining to risk management and oversight are elevated stemming from the village's pension funding discipline that will likely lead to future cost escalations. Environmental and social factors are neutral. We also note the village is proactive in mitigating cybersecurity risks.

Outlook

The stable outlook reflects our expectation that management's forward-looking financial policies and practices and positive revenue trend will help New Lenox maintain balanced operations while meeting its ongoing capital needs.

Downside scenario

If budgetary performance and flexibility materially weaken, or if pension costs pressure the budget, we could lower the rating. We could also lower the rating if future debt issuance causes New Lenox's liabilities to increase disproportionately to the village's budget or economy, or if planned sewer system rate increases are insufficient to fully cover debt service on the WIFIA loan, resulting in an overall debt and contingent liability profile that is no longer commensurate with the current rating.

Upside scenario

While unlikely, we could raise the rating if New Lenox's debt and contingent liability profile were to improve significantly, coupled with improvement to the village's income metrics, and all other rating factors are commensurate with those of peers.

New Lenox, Illinois--key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	125			
Market value per capita ($)	133,447	122,794	114,071	111,013
Population		26,669	26,762	26,222
County unemployment rate(%)		4.2	4.6	5.7
Market value ($000)	3,558,903	3,274,803	3,052,761	2,910,987
Ten largest taxpayers % of taxable value	4.7			
Strong budgetary performance				
Operating fund result % of expenditures		29.0	23.9	21.4
Total governmental fund result % of expenditures		33.9	42.6	26.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		109.6	82.3	67.9
Total available reserves ($000)		32,030	23,508	16,673
Very strong liquidity				
Total government cash % of governmental fund expenditures		233	207	166
Total government cash % of governmental fund debt service		1857	1486	1840
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		12.5	13.9	9.0
Net direct debt % of governmental fund revenue	466			
Overall net debt % of market value	9.1			
Direct debt 10-year amortization (%)	28			
Required pension contribution % of governmental fund expenditures		8.7		
OPEB actual contribution % of governmental fund expenditures		0.0		
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