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Fitch: Bolingbrook (IL) Rating Actions Point to Analytical Differences

Fitch Ratings-San Francisco/New York/Chicago-10 February 2023: The Village of Bolingbrook, IL's recent default on a series of nonrecourse sales tax revenue bonds backed by a narrow area of its tax base would not affect Fitch Ratings' view of the municipality's overall credit quality. While Fitch does not rate the Bolingbrook's dedicated tax or general obligation (GO) bonds, Fitch believes the recent downgrade of Bolingbrook's GO bond ratings by another rating agency highlights a meaningful difference in our approach to the distinctions between dedicated-tax bond obligations ratings and an issuer's GO and Issuer Default Ratings (IDR).

Our ratings definitions state that IDRs "opine on an entity's relative vulnerability to default...on financial obligations whose non-payment would best reflect the uncured failure of the entity," and a default of nonrecourse bonds does not meet this criteria. Fitch determines the legal obligations of issuers and specific pledged tax revenue stream when assigning ratings to dedicated-tax bonds. Transaction documents generally include explicit language that informs bondholders that issuers are not responsible for curing pledged revenue shortfalls. A default on a dedicated-tax bond that does not have any recourse to the issuer's general revenues would not trigger negative rating action on the issuer's IDR because it does not reflect the issuer's general credit quality or willingness to pay its financial obligations.

Fitch generally caps the ratings of local government dedicated-tax bonds at the IDR because we believe such pledges are unlikely to survive the filing of a bankruptcy by the municipality absent legal protections such as a statutory lien. We frequently rate dedicated-tax bonds like Bolingbrook's 2005 sales tax revenue bonds substantially below the local government's IDR, reflecting our view of the limited pledge and its lower resilience to revenue pressures.

The limited offering memorandum for Bolingbrook's unrated bonds explicitly warns that the bonds are payable solely and only from the sales taxes on a concentrated, small retail area encompassing existing retailers and speculative development potential, which makes them "subject to a high degree of risk." The offering statement further explains that the bonds are not general obligations and offered investors "neither the full faith and credit nor the general taxing power" of the municipality as security.

In some cases, municipal market issuers have intervened to prevent payment defaults on dedicated-tax bonds, including hotel tax bonds during the pandemic, even though they were not obligated to do so under the bond's legal structure/terms of the offering agreement. Fitch rates to the explicit obligations of the issuer under the terms of the legal documents and does not assume that a local government would step in to cover the payment obligations of a nonrecourse bond.

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