S&P Global
Ratings

RatingsDirect®

Summary:

Elgin, Illinois; General Obligation

Primary Credit Analyst:
David H Smith, Chicago + 1 (312) 233 7029; david.smith@spglobal.com

Secondary Contact:
John A Kenward, Chicago (1) 312-233-7003; john.kenward@spglobal.com

Table Of Contents

Summary:

Elgin, Illinois; General Obligation

Credit Profile		
US$9.31 mil GO corp purp bnds ser 2019 due 12/15/2033		
Long Term Rating	AA+/Stable	New
Elgin GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Elgin, Ill.'s series 2019 general obligation (GO) corporate purpose bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the city's existing GO debt. The outlook is stable.

The series 2019 GO corporate purpose bonds are secured by the city's unlimited-tax GO pledge. Proceeds from the bonds will be used for sewer and water utility improvements within the city.

The city benefits from its access to the broad and diverse Chicago MSA, with easy access to downtown Chicago and O'Hare International Airport. While the city's riverboat casino has seen declines in revenue in recent years, it serves as a source of fund for capital improvements within the city that has enabled to keep its overall debt burden low. Improvement in the city's public safety pension plan funded levels is necessary to adequately manage the potential stress these fixed costs may weigh on the city's budget in future years.

The rating reflects the following characteristics of the city:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2017, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 49% of operating expenditures;
- Very strong liquidity, with total government available cash at 59.1% of total governmental fund expenditures and 21.2x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 2.8% of expenditures and net direct debt that is 32.3% of total governmental fund revenue, as well as rapid amortization, with 86.9% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Adequate economy

We consider Elgin's economy adequate. The city, with an estimated population of 112,665, is located in Cook and Kane counties in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 86.7% of the national level and per capita market value of $62,333. Overall, the city's market value grew by 6.3% over the past year to $7.0 billion in 2018. The weight-averaged unemployment rate of the counties was 4.8% in 2017.

Elgin is located approximately 38 miles northwest of downtown Chicago and covers approximately 38 square miles. The city is located near Interstate 90, which connects residents to O'Hare International Airport and downtown Chicago. In addition, the city has access to downtown Chicago via commuter rail transportation through the Milwaukee Road Metra rail line, which has three train stations within the city. We consider the local tax base to be very diverse, with the city's top 10 taxpayers representing 4.2% of equalized assessed valuation (AV). Kane County represents approximately 82% of the city's 2017 AV, with Cook County comprising the remainder. Officials indicate that AV for the portion of the city located in Kane County grew by approximately 5.8% in 2018. In addition, we understand that major taxpayers and employers within the city are stable. We anticipate our view of the city's economy to remain adequate during the next few years.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

We have revised our view of the city's management policies to good from strong, based on our view that its policies are slightly weaker than our last review of the city in 2016. In developing its budget, the city examines three to five years of historical trends and uses zero-based budgeting. The city reports to the city council on expenditures, with comparisons to budget, for those expenditures that exceed $20,000. In addition, the city provides monthly budget-to-actual reporting for major revenue streams to its council. The city conducts long-term financial and capital planning for a three-year period for its general fund and riverboat fund, which are updated annually. The city also maintains a five-year long-term financial forecast and capital plan for utility funds, which are also updated on an annual basis. The city has a formal debt management policy that contains ceilings for certain debt ratios and addresses short-term borrowing and speed of amortization. However, the debt ratios are outdated as the policy has not been updated recently. The city has its own investment management policy and provides monthly updates to its council regarding investments. In addition, it has a formal policy to keep reserves at a level above 30% and 25% of expenditures, in its general and utility funds, respectively.

Adequate budgetary performance

Elgin's budgetary performance is adequate in our opinion. The city had operating deficits of negative 3.1% of expenditures in the general fund and of negative 2.7% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could improve from 2017 results in the near term.

Our analysis of the city's budgetary performance reflects the adjustment of recurring transfers and one-time expenditures from the spending of bond proceeds. In recent years, the city has made supplemental pension payments to its police pension fund totaling $14 million between fiscals 2012 and 2016. General fund revenue includes gaming and lease revenue from a privately owned riverboat casino, which the city uses the majority of revenue from for capital projects. These revenue have gradually decreased in recent years, with increased competition from a neighboring casino and the introduction of statewide video gaming in 2012.

After reporting a 3% surplus ($3.7 million) in the general fund in fiscal 2016 (year-ended Dec. 31), the city reported a $4.0 million deficit in the general fund in fiscal 2017 caused in part by the carrying over of certain capital projects from fiscal 2016, a decrease in state income taxes caused by a change in state law and lower permit revenue. General fund revenue comprises property taxes (35.4%), followed by sales taxes (20.8%), and intergovernmental revenue (18.7%). With regard to unaudited fiscal 2018, the city expects to report a 3.2% surplus, or $3.6 million. This result was driven by higher sales tax revenue, reflecting a 0.25 cent increase implemented by the city beginning in July 2018. The city also implemented a 4.00-cent local motor fuel tax in 2018. With respect to expenditures, the city indicates that it had a number of retirements leading to open positions and entry-level replacements at lower salaries. The city has adopted a general fund budget in fiscal 2019 structured with a $950,000 use of reserves, or less than 1% of expenditures; the city anticipates ending the year at a break-even result.

Very strong budgetary flexibility

Elgin's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 49% of operating expenditures, or $62.2 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.

With the unaudited surplus in fiscal 2018, the city's available fund balance improved to approximately 57% of general fund expenditures. We anticipate that the city's budgetary flexibility will remain very strong and well above 30% in the next few years.

Very strong liquidity

In our opinion, Elgin's liquidity is very strong, with total government available cash at 59.1% of total governmental fund expenditures and 21.2x governmental debt service in 2017. In our view, the city has strong access to external liquidity, if necessary.

In calculating the city's liquidity, we have removed certain restricted amounts from its cash and investments, including approximately $36 million in cash in enterprise funds and $19 million in internal service funds that the city does not consider available. The city's strong access to external liquidity is supported by its frequent issuance of GO debt. The city has not entered into any alternative financing arrangements or direct purchase agreements that could create contingent liquidity risks. We do not anticipate that city's liquidity position will weaken in the next few years.

Strong debt and contingent liability profile

In our view, Elgin's debt and contingent liability profile is strong. Total governmental fund debt service is 2.8% of total governmental fund expenditures, and net direct debt is 32.3% of total governmental fund revenue. Approximately 86.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city plans to issue an additional $20 million in GO debt for capital projects within the next two years. This amount of additional debt is not expected to impact our view of the city's strong debt and contingent liability profile as it is amortizing approximately the same amount of debt during the two year time horizon. In our opinion, a credit weakness is Elgin's large pension and OPEB obligation. Elgin's combined required pension and actual OPEB contributions totaled 13.3% of total governmental fund expenditures in 2017. Of that amount, 12.2% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The city made 99% of its annual required pension contribution in 2017. The funded ratio of the largest pension plan is 52.4%.

Non-public-safety employees are covered by the Illinois Municipal Retirement Fund (IMRF), to which the city pays 100% of its annual required contribution. The city's plan fiduciary net position as a percentage of the total pension liability was 101% as of Dec. 31, 2017. The city's police and firefighters are covered by separate a single-employer defined benefit pension plan. As of Dec. 31, 2017, the police plan was 52.4% funded, with a net pension liability of $107.3 million calculated using a discount rate of 7%. The city's funded ratio for the police pension plan has improved from 40.9% in 2015 to its current funded level. The city's firefighters' plan has a plan fiduciary net position as a percentage of the total pension liability of 53.5% at fiscal year-end 2017, up from 43.9% in fiscal 2015. The firefighters' pension plan's net pension liability is $75.6 million, using a discount rate of 7%. The city plans to fully fund the past service cost of public safety pension plans by 2040, a rate greater that than statutory minimum of 90% funding for these funds by 2040.The city also subsidizes retiree health care through a single-employer defined benefit plan. The city's net OPEB liability was $21 million as of Dec. 31, 2017.

Strong institutional framework

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

Outlook

The stable outlook reflects our expectation that we will not change the city's rating within the two-year outlook horizon because we believe that the city will maintain its very strong financial flexibility and liquidity. The city's participation in the Chicago-Naperville-Elgin, IL-IN-WI MSA provides further support for the rating.

Downside scenario

We may lower the rating if the city were to experience a pattern of operating deficits, which materially weakens its finances. In addition, if the city fails to improve the funding levels of its police and fire pensions, a lower rating is possible.

Upside scenario

If the city were to demonstrate significantly improved economic characteristics and improve the funding of its large pension liabilities, a higher rating is possible.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 25, 2019)		
Elgin GO corp purp bnds		
Long Term Rating	AA+/Stable	Affirmed
Illinois Finance Authority, Illinois		
Elgin, Illinois		
Illinois Fin Auth (Elgin) GO		
Long Term Rating	AA+/Stable	Affirmed

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.