

RatingsDirect®

Summary:

Elgin, Illinois; General Obligation

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Summary:

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Credit Profile

US\$25.0 mil GO corp purp bnds ser 2016 due 12/15/2030

Long Term Rating AA+/Stable New

Elgin GO

Long Term Rating AA+/Stable Affirmed

Elgin GO

Unenhanced Rating AA+(SPUR)/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Elgin, Ill.'s series 2016 general obligation (GO) corporate purpose bonds. At the same time, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook is stable.

The series 2016 GO corporate purpose bonds are secured by the city's unlimited-tax GO pledge. Proceeds from the bonds will be used for capital improvements in the city.

The rating reflects the following characteristics of the city:

- Adequate economy, with projected per capita effective buying income at 86.5% and market value per capita of \$50,575 that is advantageously gaining from 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;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2014, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 57% of operating expenditures;
- Very strong liquidity, with total government available cash at 113.9% of total governmental fund expenditures and 22.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.1% of expenditures and net direct debt that is 29.2% of total governmental fund revenue, as well as rapid amortization, with 84.4% of debt scheduled due 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 110,616, is located in Cook and Kane counties in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 86.5% of the national level and per capita market value of

\$50,575. Overall, the city's market value fell by 0.7% during the past year to \$5.6 billion in 2015. The weight-averaged unemployment rate of the counties was 7.1% in 2014.

Elgin is located approximately 38 miles northwest of downtown Chicago and covers approximately 39 square miles. Major city employers include the local school district (4,170 employees), Chase (2,500 employees), and Sherman Hospital (2,200 employees). We consider the local tax base to be very diverse, with the city's top 10 taxpayers representing 4% of equalized assessed valuation (AV).

Very strong management

We view the city'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.

In developing its budget, the city examines historical trends and consults with third-party sources, such as the Illinois Municipal League. The city reports to the city council on budget-to-actual performance and investments on a quarterly basis. Long-term financial and capital planning covers a five-year period and is conducted annually. The city has a formal debt management policy that contains ceilings for certain debt ratios and addresses short-term borrowing and speed of amortization. The city has its own investment management policy. In addition, it has a formal general fund policy to keep cash reserves at 16% to 19% of expenditures.

Adequate budgetary performance

Elgin's budgetary performance is adequate in our opinion. The city had operating deficits of negative 4.0% of expenditures in the general fund and of negative 5.8% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could improve from 2014 results in the near term.

The city's general fund deficit in fiscal 2014 (December 2014) was primarily attributable to a supplemental payment made to its police pension fund of \$5 million, which led to a deficit. Despite this, the city experienced significant increases in sales tax revenue and building permit revenue compared to the previous fiscal year. General fund revenue includes gaming and lease revenue from a privately owned riverboat casino that amounted to about \$10 million in fiscal 2014. The city uses most of its gaming revenue to fund capital projects. For fiscal 2015, the city expects to report a \$4.8 million deficit in the general fund, or 4.3% of general fund expenditures. As in fiscal 2014, the city made a planned \$5 million supplemental payment to its pension funds, which led to the deficit. For fiscal 2016, the city expects to report a break-even result in the general fund without the use of reserves.

Very strong budgetary flexibility

Elgin's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 57% of operating expenditures, or \$68.6 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 planned drawdown in fiscal 2015 for the supplemental pension payment, the city's available fund balance in fiscal 2015 declined to approximately 53% of expenditures, or \$63.7 million. Despite this decline, 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 113.9% of total governmental fund expenditures and 22.2x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

The city's strong access to external liquidity is supported by its frequent issuance of GO debt. We do not anticipate that city's liquidity position will weaken in the next few years.

Very strong debt and contingent liability profile

In our view, Elgin's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.1% of total governmental fund expenditures, and net direct debt is 29.2% of total governmental fund revenue. Approximately 84.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city does not have any significant new-money debt plans expected within the next two years.

In our opinion, a credit weakness is Elgin's large pension and OPEB obligation. Elgin's combined required pension and actual OPEB contributions totaled 10.3% of total governmental fund expenditures in 2014. Of that amount, 8.8% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The city made 137% of its annual required pension contribution in 2014. The funded ratio of the largest pension plan is 44.7%.

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 IMRF funded level was 73% as of Dec. 31, 2014. The city's police and firefighters are covered by separate a single-employer defined benefit pension plan. As of Dec. 31, 2014, the police plan was 44.7% funded and the firefighters' plan was 47.4% funded. The city also subsidizes retiree health care, and the city contributed \$2.2 million to its OPEB plan in fiscal 2014. We anticipate the city's pension plans' funding levels will improve, given the city's increased contributions.

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 GO bond rating within our two-year horizon because we believe that 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.

Upside scenario

If the city were to demonstrate significantly improved economic characteristics and improve the funding of its large pension liabilities, we could raise the rating.

Downside scenario

We could lower the rating if the city were to post significant deficits that materially compromise its budgetary flexibility. In addition, if the city's debt and contingent liability profile were to weaken, a lower rating is possible.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Illinois Local Governments

Ratings Detail (As Of February 3, 2016)

Elgin GO corp purp bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Elgin GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Illinois Fin Auth, Illinois		
Elgin, Illinois		
Illinois Fin Auth (Elgin) local govt prog rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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