S&P Global
Ratings

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Summary:

Elgin, Illinois; General Obligation

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Credit Profile		
US$9.28 mil GO corporate purp bnds ser 2021B due 12/15/2035		
Long Term Rating	AA+/Stable	New
US$7.72 mil GO rfdg bnds ser 2021A due 12/15/2028		
Long Term Rating	AA+/Stable	New
Elgin GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Elgin, Ill.'s roughly $7.72 million series 2021A general obligation (GO) refunding bonds and roughly $9.28 million series 2021B GO corporate-purpose bonds and affirmed its 'AA+' rating, with a stable outlook, on the city's existing GO debt.

The city's unlimited-tax-GO pledge secures the series 2021A and 2021B GO bonds.

Officials intend to use series 2021A bond proceeds to refund series 2010A, 2012, and 2012A bonds for debt-service-cost savings and series 2021B bond proceeds to finance various water-and-sewer-utility projects.

Credit overview

Elgin benefits from its access to the broad and diverse Chicago metropolitan statistical area (MSA) with easy access to downtown Chicago and O'Hare International Airport. While the city's riverboat casino revenue has decreased recently, the casino serves as a funding source for capital improvements, which has allowed Elgin to keep overall debt low. In our opinion, improvement in public-safety-pension-plan funding is necessary to adequately manage the potential stress these fixed costs could have on the city's budget. We note the effects of COVID-19 on Elgin's finances have been fairly muted.

The rating also reflects our view of the city's:

- Adequate economy, with market value per capita of $69,916 and projected per capita effective buying income at 83.8% of the national level, that benefits from access to a broad and diverse MSA;
- Strong financial management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental-fund level in fiscal 2019;
- Very strong budgetary flexibility, with available fund balance in fiscal 2019 at 57% of operating expenditures;
- Very strong liquidity, with total government available cash at 111.8% of total governmental-fund expenditures and 45.9x governmental debt service, and access to external liquidity we consider strong;

- Very strong debt-and-contingent-liability position, with debt service carrying charges at 2.4% of expenditures and net direct debt that is 14.9% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 91.2% of debt scheduled to be retired within 10 years, but 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.

The stable outlook reflects S&P Global Ratings' expectation that despite an uncertain economic climate, Elgin will likely maintain balanced operations most years with very strong budgetary flexibility and liquidity during the two-year outlook.

Environmental, social, and governance (ESG) factors

The rating incorporates our view regarding social risks posed by COVID-19. However, COVID-19 is not affecting Elgin more than other sector peers. We have also analyzed environmental and governance risks relative to Elgin's economy, management, financial measures, and debt-and-liability profile and have determined all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if Elgin were to experience a pattern of operating deficits that materially weakens finances or if Elgin fails to improve police and firefighter pension funding.

Upside scenario

We could raise the rating if economic characteristics were to improve significantly and if Elgin were to improve the funding of its large unfunded pension liabilities.

Credit Opinion

Adequate economy

We consider Elgin's economy adequate. The city, with a population estimate of 113,473, is in Cook and Kane counties in the Chicago-Naperville-Elgin MSA, which we consider broad and diverse. Projected per capita effective buying income is 83.8% of the national level and per capita market value is $69,916. Overall, market value grew by 8.9% during the past year to $7.9 billion in fiscal 2020. The counties' weight-averaged unemployment was 4.3% in 2019, pre-COVID-19.

The roughly 38-square-mile Elgin is about 38 miles northwest of downtown Chicago, near Interstate 90, which connects residents to O'Hare International Airport and downtown Chicago. In addition, Elgin has access to downtown Chicago via commuter rail through the Milwaukee Road Metra rail line, which has three train stations in the city.

The local property tax base is very diverse with the 10 leading taxpayers accounting for 4.1% of equalized assessed valuation. In addition, we understand leading city taxpayers and employers are stable. We expect our view of the city's economy will likely remain adequate during the next few years.

Management reports no major layoffs or closures among leading area employers due to COVID-19; however, social distancing and other effects of the pandemic and recent related recession caused elevated unemployment in 2020. Kane County's unemployment peaked at 16.8% in April 2020 before it decreased to 6.6% in December 2020.

Strong management

We view the city's financial management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

In developing its budget, Elgin examines three years to five years of historical trends and uses zero-based budgeting. The city reports expenditures, with budget comparisons, that exceed $20,000 to the city council. In addition, management provides monthly budget-to-actual reports for major revenue streams to the council. Management conducts three-year financial and capital planning for the general and riverboat funds, which it updates annually. The city also maintains a five-year, long-term financial forecast and capital plan for utility funds, which it also updates annually.

Elgin has recently revised its formal debt-management policy; the policy contains ceilings for certain debt and addresses short-term borrowing and amortization. The city updated its investment-management policy in 2019, including monthly investment updates to the council. In addition, Elgin formally maintains reserves of more than 30% and 25% of expenditures in general and utility funds, respectively, which it complies with currently.

Adequate budgetary performance

Elgin's budgetary performance is adequate, in our opinion. The city had general fund operating surpluses at 2.2% of expenditures and 4.9% across all governmental funds in fiscal 2019.

Our analysis of budgetary performance reflects the adjustment of recurring transfers and one-time expenditures from bond proceeds. General fund revenue includes gaming and lease revenue from a privately owned riverboat casino; the city uses the majority of gaming revenue for capital projects. This revenue has gradually decreased recently with increased competition from a neighboring casino and the introduction of statewide videogaming in 2012, as well as lower revenue due to COVID-19. In fiscal 2020, officials budgeted casino revenue at $10.7 million; actual revenue was $5.5 million due to the casino shutting down for about half the year. To combat lost revenue, the city proactively postponed two projects totaling $5 million.

Property taxes generate 32% of general fund revenue, followed by sales taxes at 23% and intergovernmental revenue at 17%. Regarding fiscal 2020, based on conversations with management, we understand it expects to report a $4.6 million general fund surplus. Management attributes this surplus to better-than-budgeted results, including numerous cost cutting during the year to combat potential lost revenue due to COVID-19.

Officials adopted a fiscal 2021 general fund budget structured with a $2.3 million use of reserves. This budget does not include $21.7 million in federal-stimulus funds the city expects from the American Rescue Plan Act of 2021. Management did not indicate firm plans on how it expects to use federal-stimulus funds. We expect budgetary performance will likely remain, at least, adequate during the next few fiscal years.

After reporting a large general fund surplus in fiscal 2018, Elgin achieved a roughly $2.9 million surplus at fiscal year-end Dec. 31, 2019. Strong sales tax revenue, which benefited from a 0.25-cent city-implemented increase in July 2018; higher investment income; and increased ambulance fee revenue due to the city revising its rate structure support this outcome.

Very strong budgetary flexibility

Elgin's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2019 at 57% of operating expenditures, or $76.1 million. We expect available fund balance will likely remain more than 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Management's long-range financial projections show available general fund reserves decreasing by $16 million during the next three fiscal years. Management notes that these are conservative projections and that the city typically outperforms the general fund budget. Therefore, we expect budgetary flexibility will likely remain very strong.

Very strong liquidity

In our opinion, Elgin's liquidity is very strong, with total government available cash at 111.8% of total governmental-fund expenditures and 45.9x governmental debt service in fiscal 2019. In our view, the city has strong access to external liquidity if necessary.

In calculating liquidity, we have removed certain restricted amounts from cash and investments, including tax-increment-financing and cemetery funds. In our opinion, Elgin's frequent GO debt issuance supports its strong access to external liquidity.

The city has not entered into any alternative-financing arrangements or direct-purchase agreements that could create contingent-liquidity risks. We do not expect liquidity will likely weaken during the next few fiscal 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 2.4% of total governmental-fund expenditures, and net direct debt is 14.9% of total governmental-fund revenue. Overall net debt is low at 2.5% of market value and officials plan to retire about 91.2% of direct debt during 10 years, which are, in our view, positive credit factors.

Officials currently plan to issue $10 million of additional utility debt annually for the next five years. They will fund debt service with water-and-sewer rates to abate property taxes.

Pension and OPEB highlights

- In our opinion, Elgin's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness.
- Elgin's combined required pension and actual OPEB contribution totaled 14.8% of total governmental-fund expenditures in fiscal 2019: 13.8% represented required contributions to pension obligations and 1% represented OPEB payments. The city made 100% of its annual required pension contribution in fiscal 2019. The largest pension plan is 54.6% funded.
- We view Elgin's pension and OPEB liabilities as sizable with low pension funding.
- We view these liabilities as a credit pressure for Elgin because costs exceed 10% of the budget and are likely to

increase.

Elgin participates in:

- Illinois Police Pension Plan, which is 55% funded, with a net pension liability of $115 million;
- Illinois Firefighters' Plan, which is 53% funded, with a net pension liability of $90.1 million;
- Illinois Municipal Retirement Fund (the regular plan), which was 88% funded, with a net pension liability of $25 million as of Dec. 31, 2018; and
- Elgin's OPEB plan, which is 50% funded, with a net OPEB liability of $14 million.

The discount rate for both the police and firefighters' pension plans is 7%. We view these revised discounts as somewhat higher than ideal, which could lead to contribution volatility. While Elgin plans to fund past public-safety-pension-plan costs in full by 2040--a rate greater than the statutory minimum of 90% funding for these funds by that date--its plan contributions are short of our static-funding and minimum-funding-progress metrics. We also note funding decreased for both plans in 2018 due to weaker investment returns.

Strong institutional framework

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

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of April 2, 2021)		
Elgin GO corporate purp bnds		
Long Term Rating	AA+/Stable	Affirmed
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