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Summary:

Glen Ellyn Illinois; General Obligation

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Credit Profile		
US$12.89 mil GO bnds ser 2015 due 01/01/2036		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Glen Ellyn, Ill.'s series 2015 general obligation (GO) bonds. The outlook is stable.

The bonds are secured by the village's GO pledge and are payable from ad valorem taxes to be levied against all taxable property in the village without limitation as to rate or amount. Village officials will use bond proceeds to finance the construction of a new police station, storm water improvements, and the acquisition of property.

The 'AAA' rating reflects our view of the following credit characteristics, including the village's:

- Very strong 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 (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 42% of operating expenditures;
- Very strong liquidity, with total government available cash of 139.4% of total governmental fund expenditures and 27.6x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 5.1% of expenditures and net direct debt that is 95.6% of total governmental fund revenue, and low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) liability; and
- Strong institutional framework score.

Very strong economy

We consider Glen Ellyn's economy very strong. The village, with an estimated population of 28,180, is located in DuPage County in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 163% of the national level and per capita market value of $125,837. Overall, the village's market value fell by 0.8% over the past year to $3.5 billion in 2015. The county unemployment rate was 5.6% in 2014.

Glen Ellyn is a home-rule unit of government in an affluent, primarily residential, community approximately 25 miles west of downtown Chicago. The village's home-rule designation confers broad revenue-raising flexibility, including freedom from tax caps, among other things. The village is just north of the Interstate-88 tollway and adjacent to Interstate-355 and is additionally linked to downtown Chicago via Metra commuter rail, all of which give residents relatively quick access to the broader Chicago MSA. Though Glen Ellyn has, like virtually all municipalities in the region, seen fairly sharp declines in market value in the aftermath of the Great Recession, the most recent year's decline was only minimal and we understand that ongoing commercial growth, coupled with annexations, should result in a resumption of market value growth once again within the next few years, if not within the next year.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our 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.

Highlights to the FMA include: strong revenue and expenditure assumptions for annual budgeting; quarterly budget-to-actual reporting to the village board, and the ability to amend the budget as needed; five-year financial projections that are updated annually and included in the annual budget; a 10-year capital plan that is updated as needed (usually at least every few years) as well as a five-year plan updated annually and included in the annual budget; formal investment and debt management policies; and a formal fund balance policy calling for a minimum unassigned general fund balance of 25% of expenditures. We have given the village a "standard" score with respect to its investment management policies, as we understand that the board is currently not receiving routine investment reports detailing holding and earnings; further, we have given it a "vulnerable" score for debt management--which is typical of most municipalities—because, though the village does have a formal policy, it is not, in our view, robust enough to warrant a stronger score.

Strong budgetary performance

Glen Ellyn's budgetary performance is strong in our opinion. The city had operating surpluses of 5.0% in the general fund and 10.2% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

In calendar year 2014, the village transitioned from a fiscal year ending on April 30 to one ending on Dec. 31, so the most recently completed, full fiscal year ended April 30, 2014, which we use for the base year in our analysis. We have adjusted general fund expenditures to account for routine transfers out of property tax revenue received in the general fund and transferred annually to the capital projects fund. For the current fiscal year (ending Dec. 31, 2015), the village budgeted for a small general fund surplus and currently expects to end the year with a surplus. We understand that it expects to complete a number of one-time capital projects in 2015, though otherwise anticipates a typical year in terms of total governmental funds performance, which has been positive in recent years. Our expectation, mentioned above, that we expect some deterioration in budgetary performance relative to fiscal 2014 reflects our view that general fund year-end results in fiscal 2015 will—based on current projections—be a surplus of less than 5% of the budget and are unlikely to remain at or above 5% on an ongoing basis.

Very strong budgetary flexibility

Glen Ellyn's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 42% of operating expenditures, or $7.5 million. We expect the available fund balance will remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

After adjusting general fund expenditures for routine transfers out, the available fund balance has ranged from 38% to

44% of expenditures over the past three audited fiscal years, and we do not anticipate material change in reserves in the next few years.

Very strong liquidity

In our opinion, Glen Ellyn's liquidity is very strong, with total government available cash of 139.4% of total governmental fund expenditures and 27.6x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

The village has issued debt semi-frequently over the past two decades, which supports our view that it has strong access to capital markets for external liquidity if needed. We do not expect the village's liquidity position to materially weaken for the foreseeable future. The village has no alternative financing instruments and no contingent liabilities.

Adequate debt and contingent liability profile

In our view, Glen Ellyn's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.1% of total governmental fund expenditures, and net direct debt is 95.6% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, which is in our view a positive credit factor.

We understand that the village could issue approximately $4.5 million in GO debt within the next year to finance the construction of a parking garage. We note that while fiscal 2014 carrying charges were 5.1% of total governmental funds expenditures, the series 2015 bonds, along with the potential $4.5 million GO bonds, could cause carrying charges to increase, which could weaken the village's debt profile.

In our opinion, a credit weakness is Glen Ellyn's large pension and OPEB liability. Glen Ellyn's combined pension and OPEB contributions totaled 7.5% of total governmental fund expenditures in 2014. The city made its full annual required pension contribution in 2014.

The village contributes to the Illinois Municipal Retirement Fund (IMRF), an agent multiemployer defined-benefit plan, and a single-employer defined-benefit police pension plan. The village's fire department is all-volunteer, and the village does not contribute to a fire pension plan. And although the village offers OPEB benefits, retirees contribute 100% of the actuarially determined premiums for the plan, and the village's annual employer contributions are only nominal.

The village has contributed 100% of its annual pension costs for IMRF in each of the past three fiscal years and slightly more than its annual cost for the police plan in each of the past three. As of the Dec. 31, 2014, valuation date, the IMRF plan was 85% funded with a $4 million unfunded liability, and the police plan was 64% funded with a $14.7 million unfunded liability. We understand that the village has in recent years adjusted its assumptions on investment returns for the police plan, which has, in turn, yielded an increased unfunded liability and slightly lower funded ratio and will likely lead to moderately increased annual costs in the near term. Though we do not anticipate Glen Ellyn's pension costs ballooning dramatically in the coming years, we expect the police plan in particular to remain at a relatively low funded level with elevated annual required contributions for the foreseeable future, which we consider a credit weakness.

Strong institutional framework

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

The village's GO bonds are eligible to be rated above the sovereign because we believe the village can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. Glen Ellyn's GO pledge secures the bonds; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the village. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management. In addition, Glen Ellyn's financial flexibility is demonstrated by its very strong fund general balance as a percentage of expenditures, as well as very strong liquidity.

Outlook

The stable outlook reflects our expectation that key credit factors will not deteriorate in a way that will threaten the rating within at least the two-year outlook horizon. In particular, Glen Ellyn's very strong economy—characterized by high incomes and market value per capita and location within the Chicago MSA—is unlikely to weaken materially in the coming years, lending stability to the rating. Further, the village's strong management conditions and well-embedded policies and practices make material or unexpected decline in the village's key financial indicators—budgetary flexibility, performance, and liquidity—unlikely as well.

Though unlikely, were any of these credit factors to decline materially, the rating would likely be pressured downward. Perhaps a more likely source of rating pressure is the village's debt profile. In particular, if the village were to see elevated carrying charges and/or a substantially higher direct debt burden related to new money debt issuance or if it were to see an ongoing and substantial increase in its annual pension costs, the rating could be pressured downward. However, given that we do not anticipate these scenarios taking place in the near future, we accordingly do not anticipate a lower rating within the two-year outlook horizon.

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
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- 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

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