

# RatingsDirect®

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## Summary:

# Elk Grove Village, Illinois; General Obligation

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## Summary:

# Elk Grove Village, Illinois; General Obligation

### Credit Profile

US\$43.71 mil Taxable GO Bnds ser 2021 due 01/01/2038

*Long Term Rating* AA+/Stable New

Elk Grove Vill GO

*Long Term Rating* AA+/Stable Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Elk Grove Village, Ill.'s approximate \$43.7 million series 2021 taxable general obligation (GO) bonds. At the same time, we affirmed our 'AA+' long-term rating on the village's existing GO debt. The village has approximately \$112.9 million in direct debt outstanding with the current borrowing. The outlook is stable.

The series 2021 GO bonds and the village's existing GO debt are secured by the village's unlimited tax GO pledge. Proceeds from the series 2021 bonds will refund portions of the series 2012 and 2013 bonds for interest cost savings and for capital improvement projects within the village.

### Credit overview

Adjacent Chicago's O'Hare International Airport, Elk Grove Village enjoys a significant industrial presence, which has led to substantial increases in its tax-base valuation in recent years. The village's generally steady operational performance is enhanced by the maintenance of a five-month general fund reserve policy. Offsetting these positive characteristics are the district's weak debt profile and weakly funded public safety pensions.

The 'AA+' rating reflects our view of the village's:

- Strong economy, highlighted by access to the broad and diverse Chicago economy and proximity to O'Hare International Airport;
- Budgetary performance that has benefited from active managerial oversight of key revenues and expenditures, which enabled the village to weather the pandemic without significant operational deficits;
- Weak debt profile, with significant police and firefighter's pension liabilities, with annual contributions that are expected to continue to increase; and
- Standard management policies under our Financial Management Assessment (FMA), although the village benefits from a robust reserve policy.

### Environmental, social, and governance (ESG) factors

The rating incorporates our view of the village's social risk factors, which we consider to be consistent with the sector standard. We also view the district's environmental and governance risks to be in line with the sector standard.

## Stable Outlook

### Downside scenario

Should the village experience a trend of fiscal imbalances that materially weakens its available reserves, we could lower the rating. In addition, if the village fails to improve funding levels for its weakly funded public safety pension plans, we could lower the rating.

### Upside scenario

While unlikely, if the village demonstrates improved income metrics consistent with those of higher-rated peers, we could raise the rating.

## Credit Opinion

### Adequate budgetary performance, with very strong budgetary flexibility and liquidity

After posting planned deficits in fiscal years 2018 and 2019 (year-end April 30) for capital improvements, the village reported a surplus in fiscal 2020. We anticipate a likely deterioration in budgetary performance in unaudited fiscal 2021 based on an expected deficit.

Anticipated results for fiscal 2021 reflect an improved operating result that management originally budgeted, highlighted by better-than-budgeted sales tax revenues, despite the effects of the pandemic. We note that the village's hotel and motel and food and beverage taxes declined 20% and 50%, respectively, but these revenue streams make up a relatively small portion of the village's overall budget. Offsetting these declines were decisions by the village to keep certain positions open, generating expenditure savings. For fiscal 2022, the village adopted a general fund budget with a slight 0.4% deficit.

In fiscal 2020, the village posted a \$2.5 million surplus in its general fund, which was driven by positive variances in building permit, sales, and incomes taxes as well as interest income. The village's largest revenue sources for its general fund include sales and use taxes (40.1%) and property taxes (23.9%).

Elk Grove maintained a healthy general fund reserve level in recent years, consistent with its five-month reserve policy. The village's very strong liquidity position is highlighted by approximately \$90 million in cash at fiscal year-end 2020.

### Weak debt profile, with underfunded public safety pension plans

Elk Grove Village's debt profile, while weak, benefits from rapid amortization, as the village's debt amortizes at a level greater than 65% during the next 10 years. In addition, the village's debt as a percentage of market value is less than 3%, which we view as a positive credit factor. The village does not have any additional new-money debt plans during the next few years.

Regarding its pension plans, the village exceeded its actuarially determined pension contribution levels most years, but we consider its unfunded pension liabilities to be large, without a plan to achieve materially improved funding.

- The village's single-employer, defined-benefit police and firefighters' pension plan is poorly funded, and its

assumptions are fairly weak. Continued active management of these plans are necessary to achieve improved funding levels given the trajectory of annual pension contribution increases.

- Although the city funds its other postemployment benefits (OPEB) on a pay-as-you-go basis, exposing it to cost acceleration and volatility, we expect that medium-term costs will remain only a small share of total spending and, therefore, not a significant budgetary pressure.

Specifically, the village's pension and OPEB plans and relevant funding and liability metrics are as follows:

- The Police Pension Plan is 61.6% funded, with a net pension liability of \$54 million;
- The Firefighter's Pension Plan is 53.6% with a net pension liability of \$64 million;
- The Illinois Municipal Retirement Fund (regular plan) was 98.4% funded with a net pension liability of \$1.3 million; and
- The village's OPEB Plan is funded on a pay-as-you basis and has a net OPEB liability of approximately \$18.7 million.

Elk Grove's recent annual contributions to its police and firefighter pension plan has fallen short of both its static funding and minimum funding progress calculations. Furthermore, we consider the village's discount rate of 7% for its police and firefighters' plans to be aggressive.

### **Strong economy, with access to the Chicago MSA with proximity to O'Hare Airport**

Elk Grove Village is adjacent to O'Hare International Airport and Chicago. It is home to a six-square-mile industrial park that houses businesses in manufacturing, data collection, retail, health care, warehousing, and logistics. Management reports that Microsoft Corp. and several data center firms in the village are either building or expanding existing operations. In the most recent assessment year, the village's equalized assessed valuation (EAV) increased 17%, reflecting the effect of a triennial reassessment year. We believe the village's EAV will increase in the coming year due to continued development. Our view of the village's very strong market value is enhanced by the presence of tax-increment finance districts with substantially improved market value estimates, which increased by approximately 94% from the previous year, highlighting the village's new large-scale developments. The composition of property valuation is 49% industrial, 34% residential, and 16% commercial.

The county unemployment rate exceeded 10% in 2020, reflecting the effects of the pandemic, weakening our assessment of the village's economy to strong from very strong. Based on current trends of lower unemployment, we believe there is a likelihood that village's economy improves to very strong in the next year.

### **Adequate management, with standard financial management policies and practices**

Highlights include management's:

- Use of five years of historical data and consultation with outside sources such as the Illinois Municipal League when developing its budget;
- Quarterly budget-to-actual updates to the board;
- Investment policy, with updates to the board regarding investment earnings and holdings provided annually;
- Informal capital improvement plan that extends 10 years into future, with costs, but not funding sources, identified,

although this plan is expected to be formalized with greater detail in the near term; and

- A fund balance reserve policy of five months of expenditures.

### Strong institutional framework

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

Elk Grove Village, Ill.--Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
<b>Strong economy</b>				
Projected per capita EBI as a % of U.S.		115.0	115.0	
Market value per capita (\$)	549,523	283,818	248,168	
Population		32,145	32,231	
County unemployment rate(%)	11.1	4.0	4.2	
Market value (\$000)	17,664,417	9,123,336	7,998,717	
Top 10 taxpayers as a % of taxable value	18.1	14.6	14.3	
<b>Adequate budgetary performance</b>				
Operating fund result % of expenditures	4.6	(2.6)	(1.6)	
Total governmental fund result as a % of expenditures	2.1	(3.7)	(6.2)	
<b>Very strong budgetary flexibility</b>				
Available reserves as a % of operating expenditures	51.9	47.7	49.2	
Total available reserves (\$000)	28,866	27,909	30,162	
<b>Very strong liquidity</b>				
Total government cash as a % of governmental fund expenditures	105.5	113.4	144.2	
Total government cash as a % of governmental fund debt service	901.2	1046.5	848.4	
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Weak debt and long-term liabilities</b>				
Debt service as a % of governmental fund expenditures	11.7	10.8	17.0	
Net direct debt as a % of governmental fund revenue	129.0	131.0	141.0	149.0
Overall net debt as a % of market value	1.3	3.1	2.3	2.8
Direct debt 10-year amortization (%)	65.9	58.0	54.0	49.0
Required pension contribution as a % of governmental fund expenditures	10.2	6.7	6.9	
OPEB actual contribution as a % of governmental fund expenditures	0.3	0.5	0.3	
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits.

### Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

**Ratings Detail (As Of July 1, 2021)**

Elk Grove Vill GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Elk Grove Vill ICR		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Elk Grove Vill ICR		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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

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