S&P Global
Ratings

RatingsDirect®

Summary:

Glen Ellyn, Illinois; General Obligation

Primary Credit Analyst:
Jessica Akey, Chicago + 1 (312) 233 7068; jessica.akey@spglobal.com

Secondary Contact:
Emma Drilias, Chicago (1) 312-233-7132; emma.drilias@spglobal.com

Table Of Contents

Summary:

Glen Ellyn, Illinois; General Obligation

Credit Profile		
US$8.73 mil GO bnds ser 2020 due 01/01/2040		
Long Term Rating	AAA/Stable	New
Glen Ellyn Vill GO bnds		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Glen Ellyn, Ill.'s series 2020 general obligation (GO) bonds ($8.73 million). At the same time, S&P Global Ratings affirmed its 'AAA' rating on the village's GO bonds outstanding. 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. Officials will use bond proceeds to finance the construction of a parking garage, facility improvements, street and streetscape improvements, and property acquisition.

Glen Ellyn'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," published Nov. 19, 2013, on RatingsDirect, 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 general fund balance as a percentage of expenditures, as well as very strong liquidity.

Credit overview

Although the scope of economic and financial challenges posed by COVID-19 remains to be seen, given the village's extremely high reserve levels and history of well-managed finances, in our opinion, Glen Ellyn is well positioned to navigate the possible impact of the pandemic in the short-to-medium term. The village embodies many of the typical characteristics of a 'AAA' rated issuer, has high wealth and incomes levels, and is also part of a broad and diverse metropolitan statistical area (MSA). The village expects a slight deficit in fiscal 2020, due to lower revenue collections because of social distancing restrictions, but we believe this will not have a material effect on its overall credit profile. The village relies primarily on residential property taxes, and has a sophisticated and knowledgeable management team that carefully monitors revenues and expenditures. Generally, our rating outlook time frame is up to two years. Given the current uncertainty around the pandemic, our view of the credit risks to the village are centered on the more immediate budget effects in 2020. (For additional information, see "The U.S. Faces A Longer And Slower Climb From

The Bottom," published June 25, 2020.) Although Glen Ellyn's pension costs are large, we do not view them as an immediate pressure for the village; its net liability is lower than that of many of its regional peers, and due to its home-rule revenue flexibility, it will be able to manage the potentially elevated costs.

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

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong 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 an available fund balance in fiscal 2019 of 51% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.0x total governmental fund expenditures and 27.0x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 7.4% of expenditures and net direct debt that is 101.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, 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.

Environmental, social, and governance factors

The rating also incorporates our view of health and safety risks posed by COVID-19, which we consider social risk factors. Although the scope of economic and financial challenges posed by COVID-19 remains unknown, we believe a prolonged disruption could weaken the local economy. Absent COVID-19 implications, we consider the village's social risks to be in line with the sector standard. We also consider governance and environmental risks to be in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

If Glen Ellyn substantially spends down its reserves, to a level that materially changes its credit profile, we could lower the rating. Additionally, if it's debt profile further weakens due to new-money debt issuance, or if there was an ongoing and substantial increase in the village's annual pension costs that we feel compromises its budgetary performance or flexibility, we could lower the rating. However, the village has historically relied more on cash funding its capital program and has taken steps to manage its pension liabilities.

Credit Opinion

Very strong economy

We consider Glen Ellyn's economy very strong. The village, with an estimated population of 28,108, is 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 174% of the national level and per capita market value of $161,557. Overall, the village's market value grew by 2.0% over the past year to $4.5 billion in 2020. The county unemployment rate was 2.9% in 2019.

Glen Ellyn is a home-rule unit of government in an affluent, primarily residential community located approximately 25 miles west of downtown Chicago. The village is just north of the Interstate-88 tollway and adjacent to Interstate-355; it is also linked to downtown Chicago via Metra commuter rail, all of which give residents relatively quick access to the broader Chicagoland area.

Management reports that disruption to the economy due to COVID-19 and the recession is concentrated in the village's retail and restaurant community; however, given that Glen Ellyn is largely residential (90%), we believe that a prolonged recession could affect it in the medium-to-long term. The village has demonstrated assessed value growth over the past five years and growth is expected to continue based on several newly opened businesses. Based on strong demand for building permits, village officials expect the residential market will see continued expansion. There remains ample room for new development, with 2,400 acres of land within the village's planning jurisdiction.

Very strong management

We view the village'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.

Highlights include:

- Sound revenue and expenditure assumptions based on historic information as well as outside sources of information;
- Monthly budget-to-actual and quarterly investment reporting;
- Five-year financial projections updated annually and published with the annual budget;
- Five- and 10-year capital planning, with the five-year plan published with the annual budget;
- Formal investment and debt management policies;
- A debt management policy that restricts borrowing for operations, limits amortization, and includes other qualitative restrictions; and
- A formal general fund reserve policy of 30% of expenditures for cash flow and cushion against unexpected budget issues. The village also has reserve policies for other key funds.

Adequate budgetary performance

Glen Ellyn's budgetary performance is adequate, in our opinion. The village had operating surpluses of 4.4% of expenditures in the general fund and of 13.9% across all governmental funds in fiscal 2019.

Although the village has consistently balanced operational results, we believe the pressures resulting from the pandemic and recession could pose budgetary challenges in the medium-to-long term for Glen Ellyn and all local governments nationwide. In our opinion, the fiscal 2020 expenditure cuts mitigate near-term pressure, and we think Glen Ellyn could absorb larger-than-anticipated reduced or delayed revenues and still maintain an adequate financial profile. Property taxes represent the largest revenue source (33%), followed by home rule and state share of sales tax (29%), and state share of income taxes (12%).

The fiscal 2020 (Dec. 31 year-end) budget called for a general fund surplus, but overall revenue is down 6% from the budget and expenditures are 5% over budget, and management is expecting a $1.3 million deficit. This was minimized by $1 million in expenditure cuts and $1.5 million in federal aid from the Coronavirus Aid, Relief, and Economic Security Act. Property taxes for the first half of 2020 are collected, and while DuPage County is providing a payment grace period for certain property owners, based on collections received so far, the village has seen an immaterial amount of delays.

For our analysis of fiscal 2019, we added recurring transfers out of the general fund as expenditures. The fiscal 2019 results are fairly typical for the village, given its conservative budgeting practices.

Very strong budgetary flexibility

Glen Ellyn's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 51% of operating expenditures, or $10.8 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.

Even with our forecast that the village's fund balance will decline by $1.3 million in fiscal 2020, we still expect its general fund reserves to be very strong over the next year. The board is committed to staying within its fund balance policy of 30% of expenditures.

Very strong liquidity

In our opinion, Glen Ellyn's liquidity is very strong, with total government available cash at 2.0x total governmental fund expenditures and 27.0x governmental debt service in 2019. In our view, the village has strong access to external liquidity if necessary.

We adjusted cash assets downward to reflect about $7 million of unspent bond proceeds. 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. The village has no alternative financing instruments and no contingent liabilities. We expect the village's liquidity position will remain very strong for the foreseeable future.

Weak debt and contingent liability profile

In our view, Glen Ellyn's debt and contingent liability profile is weak. Total governmental fund debt service is 7.4% of total governmental fund expenditures, and net direct debt is 101.0% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, which is, in our view, a positive credit factor.

The village does not have any debt issuance planned for the next two years.

In our opinion, a credit weakness is Glen Ellyn's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Glen Ellyn's combined required pension and actual OPEB contributions totaled 8.0% of total governmental fund expenditures in 2019. The village made 108% of its annual required pension contribution in 2019. The funded ratio of the largest pension plan is 60.4%.

Based on low-to-moderate funding for the police pension plan, and the magnitude of the village's net liability, we think pension costs will likely remain elevated and increase during the coming years.

Glen Ellyn contributes to the following defined-benefit pension plans:

- A single-employer police pension plan: 61% funded, with an employer net pension liability (NPL) of $21.45 million as of Dec. 31, 2019; and
- Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan: 99.5% funded, with an employer NPL of $251,000 as of Dec. 31, 2019.

The police plan uses a 6.5% discount rate, which is above our 6.0% guideline and, along with the static mortality assumption, could lead to contribution volatility for the village. Glen Ellyn's actuarially determined contribution (ADC) is above the statutory level, reflecting a 100% funding goal by 2040. However, we view negatively the assumption of level percent of payroll amortization. In fiscal 2019, police pension plan contributions were 78% of our minimum funding progress metric, which we view neutrally, as contributions were almost adequate to make progress on paying down unfunded liabilities.

IMRF uses a 7.25% statewide discount rate, which is above our 6.0% guideline and could lead to contribution volatility for the village. Glen Ellyn pays its full ADC annually to IMRF, although it includes annual increases of 3.4%. In fiscal 2019, IMRF contributions were 105% of our minimum funding progress metric.

The village does not pay for retiree health care benefits.

Strong institutional framework

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

Related Research

- The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions, April 2, 2020
- 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
- 2019 Update Of Institutional Framework For U.S. Local Governments