Summary:
Glencoe Village, Illinois; General Obligation

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Credit Profile

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Glencoe Vill

| **Long Term Rating**                             |
| AAA/Stable                                       |
| Affirmed                                         |

Glencoe Vill GO bnds

| **Long Term Rating**                             |
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Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Glencoe Village, Ill.'s series 2019 general obligation (GO) limited-tax bonds. At the same time, we affirmed our 'AAA' underlying long-term rating on the village's previously issued GO bonds. The outlook is stable.

The village's debt service extension base (DSEB), an ad valorem property tax levy limited as to amount but unlimited as to rate, secures the 2019 bonds. We understand that debt service has been structured to fit within the current DSEB of $599,969. Pursuant to the application of S&P Global Ratings' "Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018), we rate the GO limited-tax bonds at the same level as with our view of the village's general creditworthiness because the village's ability to pay debt service is closely linked to its general creditworthiness and we do not believe there are significant limitations on its fungibility of resources. The bond proceeds are being used to make various improvements to the village's downtown area.

The village's GO bonds are secured by an unlimited ad valorem property tax for their repayment.

We rate Glencoe Village higher than the sovereign because we believe the village can maintain better credit characteristics than the U.S. in a stress scenario, due to its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is limited risk of negative sovereign intervention. In 2019, local taxes generated 73% of general fund receipts, demonstrating a lack of dependence on central government revenue. (See "Rating Above The Sovereign: Corporate And Government Ratings – Methodology and Assumptions," published Nov. 19, 2013.)

Credit overview

Glencoe Village is a wealthy north shore community located on Lake Michigan approximately 21 miles from downtown Chicago. Budgetary performance has been at least strong over the past three years. The village's reserves and liquidity are also at levels we consider to be very strong. Our view that the village's budgetary performance, reserves, and liquidity will remain relatively stable over the next one-to-two years is supported by management's strong policies. Although the debt and pension burden is elevated, it is not creating budgetary issues for the village nor
do we anticipate it pressuring future budgets at this time. In addition, the village’s wealth and income metrics help mitigate the elevated debt and pension burden.

The rating reflects our view of the village’s:

• Very strong economy, with access to the broad and diverse Chicago metropolitan statistical area (MSA);
• Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
• Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2019;
• Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 22% of operating expenditures;
• Very strong liquidity, with total government available cash at 65.6% of total governmental fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider strong;
• Very weak debt and contingent liability profile, with debt service carrying charges at 10.7% of expenditures and net direct debt that is 93.7% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but rapid amortization, with 77.4% of debt scheduled to be retired in 10 years; and
• Strong institutional framework score.

Very strong economy

We consider Glencoe's economy very strong. The village, with an estimated population of 8,457, is on Lake Michigan and is one of the Chicago's wealthy North Shore communities. Glencoe Village is located in Cook County in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider to be broad and diverse, approximately 21 miles from downtown Chicago. The village has a projected per capita effective buying income of 287% of the national level, which we view as extremely high and a positive credit factor and per capita market value of $329,141.

Overall, Glencoe's market value fell by 4.0% over the past year to $2.8 billion in 2020. The decline was caused by changes to the county's equalization factor that is used to assess property in Illinois. Construction remains strong despite the village having only a few acres of undeveloped property. Therefore, we expect the tax base will continue growing over our outlook horizon due to the redevelopment and appreciation of existing properties.

The tax base is primarily residential and very diverse with the 10 largest taxpayers making up 3.6% of equalized assessed value. The local economy also benefits from visitors coming to the village's Writers Theater, which in 2016 completed a $30 million renovation designed by internationally renowned architect Jeanne Gang. The theater renovation coincides with the village's effort to tune up its downtown area. Management indicates that these efforts are having a positive effect on economic activity. Glencoe has averaged over $30 million in new construction value over the past five years. Management reports that plans are underway for a significant subdivision to be built on one of the village's last developable pieces of property.

Many of the residents commute to downtown Chicago by train. The village's largest employers include the park district (249 employees), Cook County Forest Preserve District (240), Glencoe School District (210), and Carmax (100). Management reports that local businesses are doing well and Carmax is finishing up an expansion at its facility.
county unemployment rate was 4.0% in 2018.

**Very strong management**

We have revised our view of the village's management practices to very strong from strong under our FMA methodology due to an improved long-term capital plan and more stringent reserve policy. The improved view indicates financial practices are strong, well embedded, and likely sustainable.

When building the line-item budget, the village uses up to 20 years of historical information, a number of external sources, and recently purchased financial software from Incode that will be used in its assumptions. The budget can be amended by the village board through an ordinance at any time. For capital planning, the village annually updates a detailed comprehensive 10-year rolling capital improvement plan with funding sources identified. Management maintains comprehensive five-year financial projections that are updated annually.

The board receives a detailed budget to actual report every month. Glencoe Village has an investment policy that adheres to the state guidelines for allowable holdings. It does not report investment returns and holdings regularly to the board. The village's debt management policy restricts the amount of non-voted debt that can be issued. The fund balance policy has recently been increased to maintain an unreserved general fund balance at the greater of 15% of expenditures or $2.5 million for contingency purposes.

**Strong budgetary performance**

Glencoe's budgetary performance is strong in our opinion. The village had slight surplus operating results in the general fund of 1.4% of expenditures, and surplus results across all governmental funds of 2.6% in fiscal 2019. The village finished fiscal 2018 and 2017 with operating surpluses equal to 3.8% and 7.0% of expenditures, respectively.

The village is subject to the Property Tax Extension Limitation Law, which means that its general fund levy is limited to the lesser of 5% and the rate of inflation, with additional levy allowed for new construction. It conservatively structures its budget and finished fiscal 2019 with positive variances as a result. Management states that some of the variances were due to the timing of projects and it is working on making more realistic but still conservative budgets in the future. Performance across the total governmental funds in 2019 finished with a slight surplus after adjusting out the $1.1 million in capital outlays that were funded with bond proceeds.

Property taxes made up 54% of general fund revenue in fiscal 2019, while sales taxes made up another 12% and the village's share of state income taxes and other taxes accounted for 12%. Although sales taxes are mostly generated by three car dealers, sales tax volatility is moderate, with collections ranging from approximately $1.7 million to $2.1 million in fiscal years 2015 through 2019.

The fiscal 2020 budget includes approximately $1.6 million in capital improvements that will be funded by reserves. Management anticipates it will finish fiscal 2020 with a surplus of $200,000 in the general fund when excluding one-time capital spending. Since we adjust out one-time capital expenses in our analysis, we expect Glencoe's operating performance to remain at least strong during the outlook period.

**Very strong budgetary flexibility**

Glencoe's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 32% of operating expenditures, or $5.7 million. Over the past three years, the total available fund balance has remained
consistent level overall, totaling 33% of expenditures in 2018 and 31% in 2017.

Management reports that the fund balance is expected to be drawn down in fiscal 2020 for capital improvements. In addition, the financial forecasts indicate slight draws on reserves through 2023. However, management indicates that these projections are conservative and expects the reserves to at least remain stable. Despite the draw on reserves in fiscal 2020, we expect that flexibility will remain at least strong over the foreseeable future.

**Very strong liquidity**
In our opinion, Glencoe's liquidity is very strong, with total government available cash at 65.6% of total governmental fund expenditures and 6.1x governmental debt service in 2019. In our view, the village has strong access to external liquidity if necessary.

Liquidity consists of $13.1 million of unrestricted cash and investments, which excludes approximately $0.5 million in unspent bond proceeds. The village has issued debt regularly over the past 20 years, demonstrating its access to external liquidity. It does not have any variable-rate or direct purchase debt that may suddenly reduce liquidity. Given management's practices and our expectations for stable operation results over the near-to-medium term we anticipate liquidity will remain very strong over the near term.

**Very weak debt and contingent liability profile**
In our view, Glencoe's debt and contingent liability profile is very weak. Total governmental fund debt service is 10.7% of total governmental fund expenditures, and net direct debt is 93.7% of total governmental fund revenue, which are levels we consider to be weak. Approximately 77.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. We view the contribution requirements and funded level of the largest plan to be a credit weakness.

The village will have $19.1 million in net direct debt outstanding following this issuance. It is discussing the issuance of approximately $5 million in debt to install smart meters and replace aging water distribution infrastructure throughout the community over the next 12 to 18 months in accordance with the capital improvement plan. During this time approximately $3.1 million of the existing debt is scheduled to be amortized resulting in a net increase of approximately $1.9 million.

In our opinion, a credit weakness is Glencoe's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Glencoe's combined required pension and actual OPEB contributions totaled 12.5% of total governmental fund expenditures in 2019. Of that amount, 11.9% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The village made 111% of its annual required pension contributions in 2019. The funded ratio of the largest pension plan is 58.8%.

The village contributes to one defined-benefit agent multiple-employer pension plan, the Illinois Municipal Retirement Fund (IMRF) and two single-employer defined benefit pension plans, the Police Plan and Firefighters’ Plan. The Firefighters’ Plan is closed to new employees and has only one beneficiary. The village pays the full statutory required contribution to IMRF, which had a net pension liability of $6.5 million with a funded level of 86% using a 7.25% discount rate as of Dec. 31, 2018. Given the size of the liability and the adequate funding level with a slightly above-average discount rate, we do not believe the IMRF plan is a credit concern.
The village pays its full actuarially determined contribution (ADC) toward the Police Plan. Management reports that the village is working to fully fund the Police Plan in 21 years by continuing to make the full ADC in the future, which is more stringent than the state's mandate of 90% funded by 2040. The Police Plan had a net pension liability of $24.9 million with a funded ratio of 58.8% using a 6.5% discount rate as of Feb. 28, 2019. The Police Plan's net liability and ADC are at levels we consider to be a credit weakness. Helping mitigate some of the credit concerns with this plan are the conservative statutory investment limitations on the plan and below-average discount rate.

The village does not subsidize retiree health care benefits but it does have an implicit subsidy as retirees can pay the full cost to stay on the village's health insurance at the employer rate until they are eligible for Medicare. The net OPEB liability was $2.3 million as of Feb. 28, 2018; the village does have the ability to adjust OPEB under state statutes and we do not believe OPEB will pressure the village's budget in the near term.

**Strong institutional framework**
The institutional framework score for Illinois non-home rule cities and villages subject to the Property Tax Extension Limitation Law is strong.

**Outlook**
The stable outlook reflects our expectation that the village will continue to maintain its strong budgetary performance and at least strong budgetary flexibility and very strong liquidity with the help of management's financial policies and practices. Although Glencoe has exposure to a poorly funded pension plan, we expect it to be manageable given the other credit factors. As a result, we do not expect to change the rating in the next two years. The village's participation in the broad and diverse Chicago metropolitan area economy provides additional stability to the rating.

**Downside scenario**
We may lower the rating if the village experiences a fiscal imbalance over several years that results in a substantial deterioration of budgetary performance and flexibility.

**Related Research**
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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