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Ratings

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Summary:

Glencoe Village, Illinois; General Obligation

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Credit Profile		
US$7.0 mil GO bnds ser 2021 due 12/15/2040		
Long Term Rating	AAA/Stable	New
Glencoe Vill		
Long Term Rating	AAA/Stable	Affirmed
Glencoe Vill GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Glencoe Vill GO bnds (waterworks sys alternate rev source) ser 2020 due 12/15/2039		
Long Term Rating	AAA/Stable	Affirmed
Glencoe Vill GO ltd tax bnds		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Glencoe Village, Ill.'s $7 million series 2021 general obligation (GO) bonds and affirmed its 'AAA' rating on the village's previously issued GO and limited-tax GO debt. The outlook is stable.

Unlimited ad valorem property taxes secure the series 2021 GO bonds.

Officials will use the series 2021 GO bond proceeds to finance storm sewer improvements, sanitary sewer upgrades, and other various villagewide capital projects.

The village's limited-tax bonds are payable from legally available funds and a debt-service levy, limited as to amount but unlimited as to rate, according to the current debt-service-extension base. Because the debt-service levy is unlimited as to rate, we rate the village's limited-tax GO debt according to our view of its general creditworthiness.

We rate Glencoe higher than the sovereign because we think the village can maintain better credit characteristics than the nation 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 at limited risk of negative sovereign intervention. In 2020, local taxes generated 57% of general fund receipts, demonstrating a lack of dependence on central government revenue. (For further information, see our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013.)

Credit overview

Glencoe is a wealthy north shore community on Lake Michigan with easy access to downtown Chicago. Budgetary performance has been, at least, strong during the past three fiscal years. We consider reserves and liquidity very strong. We also think reserves and liquidity, with proactive measures taken by the village, provided support for budgetary uncertainty caused by COVID-19. What we consider management's strong practices and policies further support our view that reserves and liquidity will likely remain relatively stable during the next one-to-two years. Although the debt and pension burdens are elevated, they do not create budgetary issues for Glencoe; we do not currently expect it will likely pressure future budgets. In addition, wealth and income help mitigate elevated debt and pensions, as well as support a stable outlook.

The rating also reflects our opinion of the village's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 64% of operating expenditures;
- Very strong liquidity, with total government available cash at 94.9% of total governmental fund expenditures and 8.7x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 10.9% of expenditures and net direct debt that is 126.0% of total governmental fund revenue, as well as a large pension and other postemployment benefits (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We think social risks for Glencoe are below sector standards due to high wealth, above 225% of the national level; this could translate to greater capacity for residents to afford revenue enhancements that a period of fiscal stress might require to maintain budgetary balance. Furthermore, we have analyzed the village's environmental and governance risks relative to its economy, budgetary outcomes, and debt-and-liability profile and have determined they are in line with the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the village experiences multiyear fiscal imbalances resulting in substantially deteriorated budgetary performance and flexibility.

Credit Opinion

Very strong economy

We consider Glencoe's economy very strong. The village, with an estimated population of 8,485, is in Cook County in the Chicago-Naperville-Elgin MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 271% of the national level, which we view as extremely high and a positive credit factor and per capita market value of $343,122. Overall, the village's market value was stable over the past year at $2.9 billion in 2020. The county unemployment rate was 3.8% in 2019.

In terms of equalized assed valuation (EAV), Glencoe's property tax base increased by 2.7% to $970.5 million from levy years 2016-2020. Construction activity remains strong despite the village having only a few acres of undeveloped property. The tax base is primarily residential and very diverse with the 10 leading taxpayers making up only 5% of EAV. The local economy also benefits from visitors to the village's Writers Theatre, which completed a $30 million renovation in 2016 as part of the village's efforts to enhance its downtown area. Management indicates these efforts are boosting economic activity. The village averaged more than $30 million of new construction during the past five years.

Management reports plans are progressing for a significant subdivision on the village's last developable piece of property. It is not aware of any local commercial property demand or occupancy slowdown due to the pandemic. Overall, we expect the local economy will likely remain very strong, even with pressure from the COVID-19-pandemic.

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.

When building the line-item budget, the village uses up to 20 years of historical information, several external sources, and financial-forecast software in its assumptions. The budget can be amended by the village board through an ordinance at any time. For capital planning, Glencoe annually updates a detailed, comprehensive, 10-year rolling capital improvement plan with funding sources identified. Management maintains comprehensive five-year financial projections that it updates annually. The village uses a financial-forecast model to generate cash flow and worst-case scenario analyses.

The board receives a detailed budget-to-actual report every month. Glencoe 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 requires the village to maintain an unreserved general fund balance at the greater of 15% of expenditures or $2.5 million for contingency purposes. The village continuously trains its staff to be vigilant of cyber attacks and it maintains insurance should a cyber incident occur.

Strong budgetary performance

Glencoe's budgetary performance is strong, in our opinion. The village had operating surpluses of 14.6% of expenditures in the general fund and 12.4% across all governmental funds in fiscal 2020. While we expect Glencoe will have at least balanced operating results, we do not expect results will be as favorable as they were in 2020.

The nonhome-rule village is subject to the property tax extension limitation law, which means its general-fund levy is limited to the lesser of 5% or the rate of inflation, with an additional levy allowed for new construction.

Glencoe completed a transition to a new fiscal year-end of Dec. 31. As a result, we are basing our analysis on a 10-month stub audit for year ended Dec. 31, 2020. Management structured the 10-month fiscal year budget with a material increase of reserves and contingencies for January and February 2021 of the following fiscal period. With this contingency, the village expects to end fiscal 2021 with, at least, breakeven net results. Glencoe received a total of approximately $500,000 from federal stimulus funds in fiscal years 2020 and 2021, and anticipates receiving approximately $1 million as a result of the American Rescue Plan. Management will likely use this federal stimulus money on infrastructure projects. Therefore, our view budgetary performance will likely remain, at least, strong during the next few fiscal years.

Property taxes generated 57% of general fund revenue in fiscal 2020 while sales taxes the village's share of state-income taxes accounted for 20%. Three car dealerships generate most local sales taxes. Management reports that the general fund surplus for the fiscal year ended Dec.31, 2020 was due to revenue coming in stronger than budgeted and the village's removal of $2.3 million in expenditures to combat the potential unknown effects of the COVID-19 pandemic at the time of budget.

Very strong budgetary flexibility

Glencoe's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 64% of operating expenditures, or $10.0 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Available reserves include unassigned general fund balance. Due to the transition of the village's audit period and removal of $2.3 million in expenditures in fiscal 2020, reserves significantly increased. We expect reserves will remain very strong over the near term.

Very strong liquidity

In our opinion, Glencoe's liquidity is very strong, with total government available cash at 94.9% of total governmental fund expenditures and 8.7x governmental debt service in 2020. In our view, the village has strong access to external liquidity if necessary.

Liquidity includes $17 million of unrestricted cash and investments held in governmental and enterprise funds at fiscal year-end Dec. 31, 2020. Glencoe has issued debt regularly during the past 20 years, demonstrating its strong access to external liquidity. The village issued its series 2016A special-service-area bonds to a single buyer, which it will repay from special assessments on five parcels of land. This private placement has a reserve fund the village must replenish should it ever draw on the reserves. The obligation's remaining principal balance is about $190,000; we do not imagine it will pressure liquidity.

Due to management's expectations for budgetary performance, coupled with current liquidity, we do not expect liquidity will likely weaken during the next few fiscal years.

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 10.9% of total governmental fund expenditures, and net direct debt is 126.0% of total governmental fund revenue.

The village will have $26 million of net direct debt outstanding following this issuance. It currently plans to issue the remaining $3 million of its $10 million issuing-authority in 2023. We do not anticipate this will materially affect the village's debt profile.

In our opinion, a credit weakness is Glencoe's large pension and OPEB obligation. The village's pension contributions totaled 16.6% of total governmental fund expenditures in 2020. It made 100% of its required pension contribution in 2020. The funded ratio of the largest pension plan is 63.0%.

Glencoe's large pension and OPEB obligation is a credit weakness, in our view. Glencoe's pension contributions totaled 16% of total governmental-fund expenditures in fiscal 2020. The village made 100% of its annual required pension contribution in fiscal 2020. The largest pension plan is 63% funded.

Glencoe participates in:

- A single-employer, public-safety plan that covers police, which was 63% funded at Dec. 31, 2020, with a net pension liability totaling $24 million;
- A single-employer, public-safety plan that covers firefighters, which is closed to new employees and has only one beneficiary; and
- The Illinois Municipal Retirement Funds, an agent plan, which was 104% funded at Dec. 31, 2020, with a net pension asset of $1.8 million.

There is an implicit rate subsidy for retirees remaining on the village's health insurance; they pay the employer rate until they are Medicare eligible. The net OPEB liability was $2 million at Dec. 31, 2020.

Glencoe historically made an actuarially determined contribution to the police plan based on achieving 100% funding within 30 years. Management recently adopted a new pension policy plan which transitioned the village from a closed amortization period to an open 15-year period. Costs could accelerate due to the 6.5% assumed rate of return, but the village will use a five-year smoothed market value method that should lessen contribution volatility. We believe the village's new pension funding policy is a credible plan to reduce its pension obligation over the medium 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.

Related Research

- 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