

# RatingsDirect®

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**Summary:**

## Glencoe Village, Illinois; General Obligation

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## Summary:

# Glencoe Village, Illinois; General Obligation

### Credit Profile

US\$6.125 mil GO rfdg bn ds ser 2020A due 12/15/2027

*Long Term Rating* AAA/Stable New

Glencoe Vill

*Long Term Rating* AAA/Stable Affirmed

## Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Glencoe Village, Ill.'s roughly \$6.125 million series 2020A general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the village's previously issued GO and limited-tax GO debt.

Unlimited ad valorem property taxes secure the series 2020A GO bonds.

Officials will use series 2020A GO bond proceeds to refund prior debt for savings.

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 2019, local taxes generated 73% 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, on RatingsDirect.)

### 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, will likely provide support for budgetary uncertainty caused by COVID-19 and the ensuing recession. 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 year to two years. Although the debt and pension burden is elevated, it is not creating 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.

Although our rating outlook timeframe is up to two years, because of current uncertainty surrounding COVID-19, our view of Glencoe's credit risks centers on the more-immediate effects during the next six months to 12 months.

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 financial management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results we expect could deteriorate in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental-fund level;
- Very strong budgetary flexibility, with available fund balance in fiscal 2020 at 35% of operating expenditures;
- Very strong liquidity, with total government available cash at 70.9% of total governmental-fund expenditures and 7.9x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 9% of expenditures and net direct debt that is 95.1% 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 low overall net debt at less than 3% of market value and rapid amortization, with 75.2% of debt scheduled to be retired within 10 years; 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 were to experience multiyear fiscal imbalances caused by recessionary pressure or other matters, resulting in substantially deteriorated budgetary performance and flexibility.

## **Credit Opinion**

### **Very strong economy**

We consider Glencoe's economy very strong. The village, with a population estimate of 8,485, is in Cook County in the Chicago-Naperville-Elgin MSA, which we consider broad and diverse. Projected per capita effective buying income is 273% of the national level, which we view as extremely high and a positive credit factor, and per capita market value is \$343,122. Overall, market value grew by 4.6% during the past year to \$2.9 billion in fiscal 2021. County unemployment was 3.8% in 2019.

In terms of equalized assessed valuation (EAV), Glencoe's property tax base increased by 2.7% to \$970.5 million from levy years 2016-2019. Construction activity remains strong despite the village having only a few acres of undeveloped

property. We expect the tax base will likely remain strong even if the recession were to dampen local property values.

The tax base is primarily residential and very diverse with the 10 leading taxpayers making up only 4% of EAV. The local economy also benefits from visitors to the village's Writers Theatre, which completed a \$30 million renovation in 2016, which coincided with the village's effort 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-related recession.

### **Very strong management**

We view the village's financial 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, external sources, and financial forecast software in its assumptions. The village board can amend the budget 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 it updates annually. The village uses a financial-forecast model to generate cash-flow and worst-case-scenario analyses.

Management provides the board with detailed budget-to-actual reports monthly. Glencoe's investment-management policy adheres to 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 nonvoted debt it can issue. The fund-balance policy requires maintaining an unreserved general fund balance at the greater of 15% of expenditures or \$2.5 million for contingencies. The village continuously trains its staff to be vigilant of cyberattacks, and it maintains insurance should a cyberattack occur.

### **Adequate budgetary performance**

Glencoe's budgetary performance is adequate, in our opinion. The village had operating surpluses at 6.5% of expenditures in the general fund and 8.1% across all governmental funds for fiscal year-end Feb. 29, 2020. Our assessment accounts for the fact that we expect budgetary results might not be as strong as fiscal 2020 during the next few fiscal years.

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.

Property taxes generated 53% of general fund revenue in fiscal 2020 while sales taxes generated 12% and the village's share of state-income taxes accounted for 5%. Three car dealerships generate most local sales taxes. The village expects sales tax and other revenue decreases of more than 25% due to the COVID-19-related recession.

Management attributes the fiscal 2020 general fund surplus to stronger-than-budgeted revenue and its deferral of \$700,000 of capital projects to later in calendar 2020.

Glencoe will transition to a new fiscal year-end of Dec. 31. 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. To prepare for COVID-19 fallout, however, it has:

- Prepared a list of more than \$2 million of potential items it can delay or reduce operating and capital expenditures;
- Frequently running forecasts that analyze the effect on the current fiscal year and future fiscal years' operations; and
- Reviewed all expenditures for the fiscal 2021 budget--Management is considering structural changes to a number of services.

These actions support our view budgetary performance will likely remain, at least, adequate during the next few fiscal years.

### **Very strong budgetary flexibility**

Glencoe's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2020 at 35% of operating expenditures, or \$6.3 million. We expect available fund balance will likely 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 current reserves and the village's actions to address fallout from the COVID-19-related recession, we expect available reserves will likely remain very strong during the next few fiscal years.

### **Very strong liquidity**

In our opinion, Glencoe's liquidity is very strong, with total government available cash at 70.9% of total governmental-fund expenditures and 7.9x governmental debt service in fiscal 2020. In our view, the village has strong access to external liquidity if necessary.

Liquidity includes \$13.9 million of unrestricted cash and investments held in governmental and enterprise funds at fiscal year-end Feb. 29, 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 \$200,000; 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.

### **Weak debt-and-contingent-liability profile**

In our view, Glencoe's debt-and-contingent-liability profile is weak. Total governmental-fund debt service is 9% of total governmental-fund expenditures, and net direct debt is 95.1% of total governmental-fund revenue. Overall net debt is low at 2.8% of market value and officials plan to retire about 75.2% of direct debt during 10 years, which are, in our view, positive credit factors.

The village will have \$20 million of net direct debt outstanding following this issuance. It currently plans to go to the electorate with a \$10 million GO-debt referendum; management does not have any definitive timeframe for when it will issue the additional debt, if approved.

### **Pension and OPEB highlights**

- We think pension and OPEB liabilities represent a potential medium-term source of credit pressure because Glencoe has exposure to large unfunded liabilities and high fixed costs. In particular, the village's single-employer, defined-benefit, public-safety pension plan is poorly funded.
- Although Glencoe is making its full actuarially determined contribution toward the plan, which is above state requirements, we posit fixed costs will likely remain elevated during the next few fiscal years.

In our opinion, Glencoe's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. Glencoe's pension contributions totaled 12.8% of total governmental-fund expenditures in fiscal 2020. The village made 101% of its annual required pension contribution in fiscal 2020. The largest pension plan is 57% funded.

Glencoe participates in:

- A single-employer, public-safety plan that covers police, which was 57% funded at Feb. 29, 2020, with a net pension liability totaling \$27.5 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 95% funded at Dec. 31, 2019, with a net pension liability of \$2.7 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 \$2.1 million at Feb. 29, 2020.

Glencoe makes an actuarially determined contribution to the police plan based on achieving 100% funding within 30 years. Costs could accelerate due to the 6.5% assumed rate of return and closed 21-year level-percent-amortization period, both of which are above our pension guidance. Fiscal 2020 contributions are 65% and 86% of our minimum-funding-progress and static-funding metrics, respectively.

### **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**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 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
- The U.S. Faces A Longer And Slower Climb From The Bottom, June 25, 2020

**Ratings Detail (As Of September 3, 2020)**

Glencoe Vill GO bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Glencoe Vill GO bnds (waterworks sys alternate rev source) ser 2020 due 12/15/2039		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Glencoe Vill GO ltd tax bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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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