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Ratings

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Summary:

Elwood, Illinois; General Obligation

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Credit Profile		
Elwood Vill GO		
Long Term Rating	A+/Stable	Affirmed
Elwood Vill GO		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings affirmed its 'A+' ratings on the village of Elwood, Ill.'s existing general obligation (GO) debt. The outlook is stable.

The village's rated debt is secured by its unlimited-tax GO pledge.

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

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA), but a concentrated local tax base;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2017, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 85% of operating expenditures;
- Adequate liquidity, with total government available cash at 59.2% of total governmental fund expenditures and 79.4% of governmental debt service, but access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 74.6% of expenditures and net direct debt that is 875.6% of total governmental fund revenue, and high overall net debt at greater than 10% of market value, but rapid amortization, with 94.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Elwood's economy adequate. The village, with an estimated population of 2,369, is a home-rule village in western Will County, about 45 miles southwest of Chicago and five miles south of Joliet. It is in the Chicago-Naperville-Elgin MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 108.4% of the national level and per capita market value of $224,320. Overall, market value grew by 4.9% over the past year to $531.4 million in 2018. Weakening Elwood's economy is a concentrated local tax base, with the 10 largest taxpayers accounting for 51.6% of the total tax base. The county unemployment rate was 5.2% in 2017.

Residents have access to employment in Joliet and the southwestern suburbs and in the village's intermodal center and industrial park. The intermodal center--the largest of its kind in the country--is in a tax-increment finance (TIF) district and includes a 775-acre intermodal facility, along with millions of square feet of warehouse and distribution space. With the presence of numerous large taxpayers in the TIF district, the village's tax base is heavily concentrated, though it is not dependent on incremental revenues to fund its operating budget, as these are pledged to pay debt service on developer notes that it issued in 2003 until the TIF district's expiration in 2023. We understand that the village has a number of industrial/warehouse and smaller scale commercial projects that have either been recently completed or are in the development pipeline, and we expect the village's equalized assessed value to remain stable through the next few years.

Strong management

We view the village's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

We have revised the village's FMA to "good" from "strong" on clarification that it does not have a debt management policy and its capital plan is not as robust as we had previously understood at our last review in 2013. Highlights to the FMA include:

- Strong assumptions reflected in the annual budget, including a combination of line-item and zero-based budgeting incorporating historical data and where increases require justification, with revenue and expenditure estimates informed by external data sources;
- Monthly budget-to-actual reporting to the village board and the ability to amend the budget as needed;
- A 10-year financial plan for the general fund and other major governmental funds, TIF fund, and its water and sewer funds that the village prepares with the aid of its financial advisor that shows detail on assumptions and that anticipates upcoming issues and solutions;
- A five-year, rolling capital improvement plan that includes funding sources but is limited in detail;
- A formal investment policy and monthly reporting on investment holdings and earnings; and
- A formal fund balance policy requiring a 25% general fund balance for cash flow and to meet contingencies.

The village does not have a debt management policy.

Adequate budgetary performance

Elwood's budgetary performance is adequate, in our opinion. The village had operating surpluses of 16% of expenditures in the general fund and 16.1% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2017 results in the near term.

The village's general fund has seen positive results in each of the past three audited fiscal years, and according to management's unaudited fiscal 2018 estimates, saw a $543,000 surplus in fiscal 2018 (ended April 30), equal to 19% of expenditures. The fiscal 2019 budget is structured for break-even results, and given limited expenditure pressures and a recent history of on-target or ahead-of-budget results, we expect year-end results will likely reflect an operating surplus, as in prior years.

The city's audited financial statements reflect large total governmental fund deficits in recent years because scheduled debt service on the village's 2003 TIF notes is booked as an expenditure, where the city is only required to pay--and only pays--whatever it collects in incremental revenues in its TIF fund, and the developer has no recourse to any other assets or revenues of the village. We believe this approach overstates total governmental fund expenditures and debt service and have adjusted both to reflect what the city actually paid in debt service in its TIF fund each year, resulting in a substantial downward revision of expenditures by nearly $14 million in fiscal 2017. After this adjustment, governmental fund results reflect a sizable surplus in fiscal 2017, though some volatility remains in prior years, mainly owing to capital spending. Given this record of volatility and the size of the village's budget--which can generate large-percentage surpluses or deficits based on comparatively small dollar amount results in a given year--we have adjusted the village's budgetary performance score to reflect a likely decline from 2017 levels.

Very strong budgetary flexibility

Elwood's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 85% of operating expenditures, or $1.7 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.

The village's fund balance policy requires a minimum general fund balance of 25% of expenditures, and it has maintained reserves well above the policy requirement in recent years. Despite a stable operating budget, management has indicated that it could transfer some of its reserves to other funds over the next several years at the discretion of the village board, while remaining in compliance with its 25% policy. While we believe there is some potential for reduction in reserves, we also expect the village's reserves position to remain very strong and over 25%.

Adequate liquidity

In our opinion, Elwood's liquidity is adequate, with total government available cash at 59.2% of total governmental fund expenditures and 79.4% of governmental debt service in 2017. In our view, the village has strong access to external liquidity if necessary.

The village has issued GO debt within the past 20 years, adequately demonstrating strong access to external sources of liquidity if needed. Its overall cash levels have remained stable for a number of years, and we expect no major changes in the near term.

Very weak debt and contingent liability profile

In our view, Elwood's debt and contingent liability profile is very weak. Total governmental fund debt service is 74.6% of total governmental fund expenditures, and net direct debt is 875.6% of total governmental fund revenue. Negatively affecting our view of the village's debt profile is its high overall net debt of 29.7% of market value. Approximately 94.5% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

We note that about 85% of the village's direct debt is the above-mentioned nonrecourse TIF notes and that the village's debt metrics will improve considerably when the notes mature in 2023. However, pursuant to our "Debt Statement Analysis" criteria (published Aug. 22, 2006, on RatingsDirect) we will continue to incorporate the notes into our debt analysis until they mature. We understand that the village has no future debt plans at this time.

Elwood's pension contributions totaled 0.8% of total governmental fund expenditures in 2017. The village made its full annual required pension contribution in 2017.

The village participates in the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer defined-benefit pension plan where contribution rates are set by state statute. As of Dec. 31, 2016, the plan was 93% funded with a token net pension liability of $198,875. Elwood provides no explicit other postemployment benefits, but offers an implicit rate subsidy. Given that there is limited participation, the village has not recorded a liability as of April 30, 2017.

Strong institutional framework

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

Outlook

The stable outlook reflects our view of Elwood's very strong reserves and adequate liquidity, both of which are supported by its stable operating environment and strong management, as reflected in its "good" FMA. Given that we expect key measures of fiscal health to remain stable in the near term, we do not anticipate a rating change in the two-year outlook horizon.

Downside scenario

We could lower the rating if the village's budgetary performance were to weaken, pressuring reserves to levels no longer consistent with those of similarly rated peers. Alternatively, we could also lower the rating if the village's available cash were to decline significantly relative to debt service and total governmental fund expenditures, resulting in a weaker liquidity assessment.

Upside scenario

We could raise the rating if the village were to see some moderation in its tax base concentration and significant improvements in debt profile.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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.