

Elgin, Illinois

New Issue Summary

Sale Date: March 18, 2020

Series: Series 2020B

Purpose: To finance water and sewer utility projects.

Security: The bonds are payable from the general obligation (GO) unlimited tax pledge of Elgin (the city).

The city operates with strong revenue and expenditure frameworks and a moderate long-term liability burden. Fitch Ratings expects that the city will maintain a very high gap-closing ability throughout the economic cycle.

Economic Resource Base: Elgin is a home rule city, with a population of about 112,000, about 40 miles northwest of downtown Chicago. The city enjoys a relatively broad employment base that includes healthcare, professional services and retail sectors. Unemployment trends slightly above state and national averages.

Key Rating Drivers

Revenue Framework: 'aaa': Fitch expects the city's revenue to increase above the rate of GDP growth and the city has unlimited independent legal ability to raise revenue.

Expenditure Framework: 'aa': Expenditures are expected to increase at a rate in line with revenue growth. The city has solid flexibility to adjust its main expenditure items.

Long-Term Liability Burden: 'aa': The city's long-term liability burden is moderate in relation to its resource base.

Operating Performance: 'aaa': The city has a very high level of gap-closing capacity, and Fitch expects it to manage through the economic cycle while retaining substantial financial flexibility. The city has maintained superior financial resilience through the current economic expansion while increasing contributions to its two single-employer pension plans.

Rating Sensitivities

Developments that May, Individually or Collectively, Lead to Positive Rating Action

- N.A.

Developments that May, Individually or Collectively, Lead to Negative Rating Action

- The 'AAA' rating is sensitive to the deterioration of financial flexibility while navigating periods of economic downturn.

Ratings

Long Term Issuer Default Rating	AAA
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New Issue

\$9,645,000 General Obligation Corporation Purpose Bonds, Series 2020B	AAA
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Outstanding Debt

General Obligation Bonds Illinois Finance Authority (City of Elgin Project) Local Government Program Revenue Bonds	AAA
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Rating Outlook

Stable

Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(January 2020\)](#)

Related Research

[Fitch Rates Elgin, IL's \\$9.6MM ULTGO Bonds 'AAA'; Outlook Stable \(March 2020\)](#)

Analysts

Matthew Wong
+1 212 908-0548
matthew.wong@fitchratings.com

Ashlee Gabrysch
+1 312 368-3181
ashlee.gabrysch@fitchratings.com

Credit Profile

Approximately 80% of the city's assessed value (AV) is in Kane County and the remaining 20% is in Cook County. While AV declined by 29% from tax year 2009 through 2014, it rebounded by over 30% from 2014 through 2018, although still below the pre-recession peak. Tax year 2019 estimated AV figures from Kane County show an increase of over 9%, while the Cook County preliminary figures are not yet available.

Revenue Framework

The city's revenue framework is very strong, with rapid revenue growth over the last 10 years and an unlimited legal ability to increase revenue through the city's home rule status. More than 33% of fiscal 2018 general fund revenues came from the city's property tax, approximately 23% from sales tax, and around 10% were from the city's share of the state income tax. Around 9% of general fund revenue came from gaming and casino taxes collected in the Elgin riverboat fund, which is included in the general fund for reporting purposes.

Fitch expects revenue growth to continue to exceed the rate of national GDP growth, driven by strong growth in AV and sales tax receipts. Revenue from the sales tax and the share of the state income tax are expected to exceed budgeted levels in 2019. While revenue generated in the Elgin riverboat fund has declined significantly since its 2005 peak (\$28 million to around \$11 million in FY 2018), the riverboat fund was not included in the general fund until 2011 and is treated by management purely as a capital projects fund. However, revenue in that fund can be used for general operations.

The city is a home rule municipality and is not subject to the state's Limitation Law. The city has used this flexibility to implement new local option revenue sources, including increases in the past year to the home rule sales tax and the hotel/motel tax, a change in ambulance billing that will lead to an increase in revenue, and implementation of a new local motor fuel tax. The city maintains unlimited legal flexibility to adjust tax rates and fees as necessary.

Expenditure Framework

The majority of the city's general fund expenditures are for public safety, which accounted for around 67% of FY 2018 general fund spending. Highways and streets expenditures represented approximately 12%.

Fitch expects that expenditures will increase in line with revenue growth. The main drivers of the city's expenditure increases come from mandated cost of living adjustments in union contracts (generally close to CPI) and funding for the police and fire pension funds. The city has two open collective bargaining contracts, both of which are being negotiated.

The city has solid flexibility over its main expenditure items. Carrying costs, including debt service and pension costs, are moderate at around 17% of fiscal 2018 governmental expenditures. The city may see increasing actuarially determined contributions to its police and fire pension funds as it looks to achieve 100% funding by 2040 and begins to use annually updated mortality tables in the actuarial assumptions. While the required contributions rose by \$4 million in fiscal 2020, the city council approved advanced funding from general fund reserves in fiscal 2019 since fiscal 2018 actual revenues exceeded estimates by that amount. This will allow the city to keep the property tax levy level for the second consecutive year. Fitch's supplemental pension metric, which assumes a 20-year level payoff of the Fitch-adjusted liability, indicates that contributions are likely to continue to rise.

In fiscal 2017, the city spent \$12.4 million on capital projects out of the general fund using revenue from the Elgin riverboat fund. The city had planned to spend the rest of its riverboat fund reserves on capital projects in 2018 but delayed work on several street projects that will be spent in 2019 and 2020. The city plans to carry over \$15.3 million in reserves for capital projects into 2020 and draw that down for capital projects to \$2.9 million in 2021. Going forward, the city expects to have approximately \$10 million annually from riverboat revenue for capital expenditures on street improvements.

Long-Term Liability Burden

The city's long-term liability burden is moderate, with net pension liabilities and overall debt at approximately 13% of city personal income. Overall debt comprises 45% of the total liability, and the Fitch adjusted net pension liability comprises 55%. Management reports that it does

Rating History (IDR)

Rating	Action	Outlook/	
		Watch	Date
AAA	Affirmed	Stable	3/05/20
AAA	Affirmed	Stable	10/08/10
AAA	Revised	Negative	4/30/10
AA+	Affirmed	Negative	4/13/10
AA+	Assigned	Stable	3/27/07

not have current plans to issue new tax-supported debt. With revenue from the riverboat fund covering most street improvement projects, the city's 5-year capital improvement plan forecasts issuing around \$10 million per year in new tax-supported debt to support utility projects that are expected to be paid by utility fees.

The city participates in four defined benefit pension plans: the agent multiple-employer Illinois Municipal Retirement Fund (IMRF); the agent multiple-employer Sheriff's Law Enforcement Personnel Fund (SLEP); the single-employer Police Pension Plan (PPP); and the single-employer Firefighters' Pension Plan (FPP). The IMRF and SLEP are statutorily funded at the actuarially determined contribution amount and the PPP and FPP are funded at an actuarially determined amount that would be sufficient to bring the plans to 100% funded status by 2040. Fitch estimates the aggregate ratio of assets to liabilities at 55%, assuming a 6% discount rate. The state has consolidated most of the formerly individual public safety pension funds into two statewide funds, one for police and one for firefighters in an effort to increase returns through access to a broader range of investment opportunities. Fitch will monitor the impact of consolidation but does not expect this would materially affect the city's long-term liability burden.

Operating Performance

The city has built and maintained high reserve levels through the economic recovery, despite the planned use of general fund balance over the last two fiscal years. The city's low level of revenue volatility and superior inherent budget flexibility, combined with very high levels of reserves, enable it to maintain financial flexibility well above the 'aaa' reserve safety margin threshold in a typical recessionary decline stress scenario. This stress analysis incorporates reserves in the riverboat fund, which is legally available to be used for operations, although the city has a practice of using the fund solely for capital projects.

Management built reserves through fiscal 2012 to a high 65% of general fund expenditures before slowly spending some of those reserves down over the subsequent five fiscal years. The city added to reserves in fiscal 2018, with available fund balance increasing to over \$73 million (60% of general fund expenditures). Management had planned on a small draw on fund balance of under \$1 million. However, due to sales and income tax revenue exceeding budgeted levels and a delay in some pay-as-you-go capital projects, the city expects reserves to increase by \$1.4 million. That projection includes the \$4 million that was advance funded for public safety pensions.

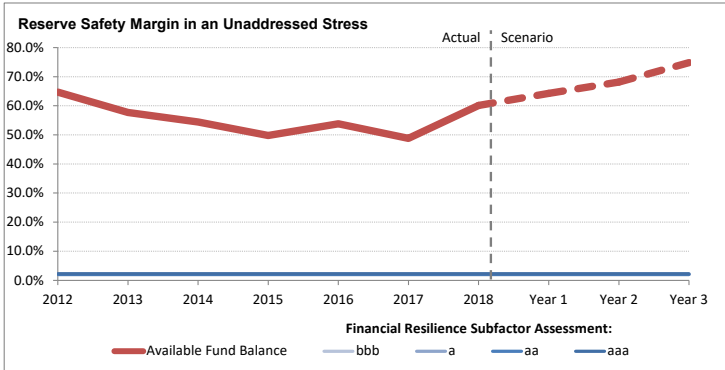
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Elgin (IL)

Scenario Analysis



Analyst Interpretation of Scenario Results:
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Scenario Parameters:

	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.1%)	1.8%	4.8%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2012	2013	2014	2015	2016	2017	2018	Year 1	Year 2	Year 3
Total Revenues	108,567	110,463	110,580	115,124	122,465	118,283	127,033	125,586	127,886	134,026
% Change in Revenues	-	1.7%	0.1%	4.1%	6.4%	(3.4%)	7.4%	(1.1%)	1.8%	4.8%
Total Expenditures	96,423	114,084	113,057	118,374	119,361	122,584	116,902	119,240	121,624	124,057
% Change in Expenditures	-	18.3%	(0.9%)	4.7%	0.8%	2.7%	(4.6%)	2.0%	2.0%	2.0%
Transfers In and Other Sources	14,222	20,254	12,375	5,607	5,298	5,318	5,401	5,339	5,437	5,698
Transfers Out and Other Uses	14,544	13,177	12,911	8,121	4,681	5,016	4,976	5,075	5,177	5,280
Net Transfers	(322)	7,077	(536)	(2,514)	617	302	425	264	260	418
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	11,822	3,456	(3,013)	(5,764)	3,721	(3,999)	10,557	6,611	6,522	10,386
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	10.7%	2.7%	(2.4%)	(4.6%)	3.0%	(3.1%)	8.7%	5.3%	5.1%	8.0%
Unrestricted/Unreserved Fund Balance (General Fund)	71,754	73,457	68,569	63,012	66,735	62,238	73,277	79,887	86,409	96,795
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	71,754	73,457	68,569	63,012	66,735	62,238	73,277	79,887	86,409	96,795
Combined Available Fund Bal. (% of Expend. and Transfers Out)	64.7%	57.7%	54.4%	49.8%	53.8%	48.8%	60.1%	64.3%	68.1%	74.8%
Reserve Safety Margins								Inherent Budget Flexibility		
			Minimal	Limited	Midrange			High	Superior	
	Reserve Safety Margin (aaa)		18.2%	9.1%	5.7%			3.4%	2.3%	
	Reserve Safety Margin (aa)		13.7%	6.8%	4.6%			2.8%	2.0%	
	Reserve Safety Margin (a)		9.1%	4.6%	2.8%			2.0%	2.0%	
Reserve Safety Margin (bbb)		3.4%	2.3%	2.0%			2.0%	2.0%		

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

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