S&P Global Ratings

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Summary:

Palatine Village, Illinois; General Obligation

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Credit Profile		
US$7.895 mil GO rfdg bnds ser 2017A due 12/01/2022		
Long Term Rating	AA+/Stable	New
US$6.13 mil taxable GO rfdg bnds ser 2017D due 12/01/2026		
Long Term Rating	AA+/Stable	New
US$3.135 mil taxable GO rfdg bnds ser 2017C due 12/01/2022		
Long Term Rating	AA+/Stable	New
US$1.54 mil GO rfdg bnds ser 2017B due 12/01/2025		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Palatine Village, Ill.'s series 2017A and B general obligation (GO) refunding bonds and 2017C and D taxable GO refunding bonds. At the same time, we affirmed our 'AA+' long-term rating on the village's existing GO debt. The outlook is stable.

The bonds are secured by the village's GO unlimited-tax pledge. Proceeds from the 2017A and B bonds will be used to refund its series 2009E and F bonds, respectively, for interest cost savings. Proceeds from the 2017C and D bonds will be used to refund its series 2007B and D bonds, respectively, for interest cost savings.

The rating reflects our assessment of the village's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 35% of operating expenditures;
- Very strong liquidity, with total government available cash at 71.2% of total governmental fund expenditures and 5.3x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 13.4% of expenditures and net direct debt that is 104.3% 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 76.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Palatine's economy strong. The village, with an estimated population of 70,874, is located in Cook County in the Chicago-Naperville-Elgin, Ill.-Ind.-Wis. MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 126% of the national level and per capita market value of $76,796. Overall, the village's market value grew by 16.0% over the past year to $5.4 billion in 2017. The county unemployment rate was 6.2% in 2016.

Palatine is located in Cook County, about 30 miles northwest of downtown Chicago. While equalized assessed value declined somewhat in 2016, it increased 16% in 2017. The increase was related to new construction activity and property reassessments that are done on a triennial cycle. Major employers in the village include Community Unit School District 15 (2,088 employees), Township High School District 211 (2,015), the U.S. Postal Service (1,000), and William Rainey Harper College (840). We expect the economy to remain strong.

Strong management

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

In developing its budget, the village uses three years of historical data, outside data sources, and line-item estimates. Management provides monthly budget-to-actual reports to the council. Budget amendments are typically made quarterly, although they can happen more frequently as necessary. The village maintains a five-year capital investment plan that is annually updated. It also maintains a long-term financial plan, covering the budget year and four additional years, that is used internally by management. It maintains an investment management policy and the council receives quarterly investment reports. The village maintains a debt management policy, but it is not comprehensive, in our opinion. Its general fund reserve policy is 25% to 33% of expenditures. It maintains an additional $2.8 million for contingencies. It has historically followed the reserve policy.

Strong budgetary performance

Palatine's budgetary performance is strong in our opinion. The village had surplus operating results in the general fund of 2.7% of expenditures, and slight surplus results across all governmental funds of 0.6% in fiscal 2016.

The village has had consistent general fund surpluses in recent years, which we expect to continue. Due to a voluntary separation program offered in 2016, the village expects personnel savings in future years. Total governmental fund performance has been somewhat negative, but overall we expect budgetary performance to remain strong.

Management expects about a $115,000 (0.2%) surplus in 2017 and at least balanced results in 2018. Our assessment of budgetary performance includes certain data adjustments, including the village's one-time capital costs for its village hall renovation.

Home-rule status provides increased taxing and borrowing capabilities, as well as a wider array of tax sources with fewer limitations compared to entities without this status. There are no legal limitations on the property tax levy or rate, nor voter approval requirements. The village has a strong ability to address budgetary imbalance through the tools available under its home-rule status. Its major general fund revenues include local taxes (48%), intergovernmental revenues (34%), and charges for services (8%).

Very strong budgetary flexibility

Palatine's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 35% of operating expenditures, or $18.2 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.

We do not anticipate our view of the village's budgetary flexibility will change, given current projections and reserves; its fund balance policy is to keep at least 25% of expenditures in reserves, as well as an additional $2.8 million for contingencies.

Very strong liquidity

In our opinion, Palatine's liquidity is very strong, with total government available cash at 71.2% of total governmental fund expenditures and 5.3x governmental debt service in 2016. In our view, the village has strong access to external liquidity if necessary.

We expect liquidity to remain very strong. The village reported a very strong $51.4 million in total cash and investments in 2016. It has strong access to external liquidity, in our opinion, because of the strengths in its credit profile and it has issued GO debt within the last 20 years.

Very weak debt and contingent liability profile

In our view, Palatine's debt and contingent liability profile is very weak. Total governmental fund debt service is 13.4% of total governmental fund expenditures, and net direct debt is 104.3% of total governmental fund revenue. Approximately 76.1% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We expect debt and contingent liabilities to remain very weak. The village has no plans to issue additional debt over the next two years. It does not have any variable-rate or private-placement debt.

In our opinion, a credit weakness is Palatine's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Palatine's combined required pension and actual OPEB contributions totaled 11.9% of total governmental fund expenditures in 2016. Of that amount, 11.2% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The village made 106% of its annual required pension contribution in 2016. The funded ratio of the largest pension plan is 58.0%.

The village participates in three pension plans, including the agent multiemployer Illinois Municipal Retirement Fund (IMRF) and its single-employer police and firefighter plans. In 2016, the IMRF plan was 85.9% funded with a net pension liability of $9.6 million. Funding levels in its police and firefighter plans have been pressured, with 2016 funding at 58% and 54.5%, respectively. The net pension liabilities for its police and fire plans in 2016 were $48.9 million and $52.6 million, respectively. The village pays the full actuarially determined contribution each year to these plans, and has periodically paid additional amounts ($502,000 in 2016) to address funding levels. However, in our opinion, it does not have a sufficient plan in place to address the long-term liabilities in these plans. Its debt and contingent liabilities remain a weakness in its overall credit profile.

The village provides other postemployment benefits, which it funds on a pay-as-you-go basis. In 2016, the unfunded actuarial accrued liability was $15.1 million.

Strong institutional framework

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

Outlook

The stable outlook reflects our view of the village's very strong budgetary flexibility and liquidity supported by strong management. It also reflects the village's access to the broad and diverse Chicago MSA. We do not expect a rating change within the two-year outlook.

Upside scenario

We could raise the rating if the village's economic indicators improve to levels commensurate with higher rated peers and the debt profile improved with lower fixed costs and improved pension funding levels.

Downside scenario

We could lower the rating should the village experience weaker budgetary performance than anticipated and if the debt profile begins to pressure its overall financial position.

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

Ratings Detail (As Of June 15, 2017)		
Palatine Vill GO		
Long Term Rating	AA+/Stable	Affirmed
Palatine Vill GO		
Long Term Rating	AA+/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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.