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Summary:

Palatine Village, Illinois; General Obligation

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Credit Profile		
US$6.92 mil GO rfdg bnds ser 2018 due 12/01/2029		
Long Term Rating	AA+/Stable	New
Palatine Vill GO		
Long Term Rating	AA+/Stable	Affirmed
Palatine Vill GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Palatine Village, Ill.'s series 2018 general obligation (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 series 2018 bonds will be used to refund the village's series 2009C bonds 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 balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 35% of operating expenditures;
- Very strong liquidity, with total government available cash at 70.2% of total governmental fund expenditures and 5.4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 13.1% of expenditures and net direct debt that is 91.4% 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 77.4% 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 70,329, is located in Cook County in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 124% of the national level and per capita market value of $77,970. Overall, the village's market value grew by 0.7% over the past year to $5.5 billion in 2018. The county's unemployment rate was 5.2% in 2017.

Palatine is located in Cook County, about 30 miles northwest of downtown Chicago. After experiencing a sizeable 16% equalized assessed value (EAV) increase in 2017 related to its triennial reassessment, the village reported a slight 0.7% increase in EAV in 2018. Major employers in the village are stable and include Community Unit School District 15 (2,088 employees), Township High School District No.211 (2,022), the U.S. Postal Service (1,000), and William Rainey Harper College (948). The village's top 10 taxpayers represent 6.3% of its tax base. 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 village board, as well as a quarterly budget-to-actual report that provides greater detail. 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. The village is currently in compliance with its reserve policy.

Strong budgetary performance

Palatine's budgetary performance is strong in our opinion. The village had balanced operating results in the general fund of negative 0.2% of expenditures, and surplus results across all governmental funds of 7.8% in fiscal 2017.

Our assessment of budgetary performance includes certain data adjustments, including adjustments made reflecting the issuance of debt for a refunding in 2017 in governmental funds. The village's general fund performance in recent years has been mostly positive, with surpluses in fiscals 2015 and 2016, followed by a slight deficit of $105,000 in fiscal 2017 (year ended Dec. 31). We understand that the use of reserves in fiscal 2017 was primarily the result of an additional planned employer contribution to its firefighter pension plan in the amount of $718,269.

For fiscal 2018, management has budgeted for $653,000 use of reserves in its general fund, or an estimated 1.1% of expenditures. Its major general fund revenues include local taxes (47%), intergovernmental revenues (34%), and charges for services (8%). The village's 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. Given this flexibility, we anticipate the village's budgetary performance will likely remain strong.

Very strong budgetary flexibility

Palatine's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 35% of operating expenditures, or $18.9 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. Moreover, the village's fund balance policy to keep at least 25% of expenditures in reserve provides additional support for our opinion of the village's budgetary flexibility as being very strong.

Very strong liquidity

In our opinion, Palatine's liquidity is very strong, with total government available cash at 70.2% of total governmental fund expenditures and 5.4x governmental debt service in 2017. 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 $48.8 million in total cash and investments in 2017, after adjusting for restricted tax increment and motor fuel tax funds. It has strong access to external liquidity, in our opinion, because of the strengths in its credit profile and due to the fact that it has issued GO debt within the past 20 years. The village does not have any variable-rate or private placement debt, nor does it have any existing or planned debt which contain adverse provisions which could cause a contingent liquidity risk for the village.

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 13.1% of total governmental fund expenditures, and net direct debt is 91.4% of total governmental fund revenue. Approximately 77.4% 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 liability profile 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 14.2% of total governmental fund expenditures in 2017. Of that amount, 13.3% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The village made 108% of its annual required pension contribution in 2017. The funded ratio of the largest pension plan is 59.9%.

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 2017, the IMRF plan fiduciary net position as a percentage of the total pension liability was 88.6% with a net pension liability of $8 million. Funding levels in its police and firefighter plans have been pressured, with 2017 plan fiduciary net position as a percentage of the total pension liability at 62.6% and 59.9%, respectively. The net pension liabilities for its police and firefighter plans in 2017 were $46.1 million and $48.7 million, respectively. The village pays the full actuarially determined contribution each year to these plans, and has periodically paid additional amounts ($685,500 in 2017) to address funding levels. The village intends to adopt to a pension funding resolution that will ratify its intent to make additional pension payments beyond the actuarially determined contribution, subject to annual review. In our view, given the magnitude of the village's unfunded liability, we do not consider the village's plan to as being sufficient to address the obligation. Its debt and contingent liability profile remains a weakness in its overall credit profile. The village provides other postemployment benefits, which it funds on a pay-as-you-go basis. Retirees pay 100% of the actuarially determined premium under the plan, creating an implicit liability for the village. As of Dec. 31, 2016, the unfunded actuarial accrued liability for its OPEB plan 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, which serves as moderating influence to local economic fluctuations. We do not expect a rating change within the two-year outlook horizon.

Upside scenario

We could raise the rating if the village's economic indicators improve to levels commensurate with its 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
- 2017 Update Of Institutional Framework For U.S. Local Governments

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.