S&P Global
Ratings

RatingsDirect®

Summary:

Algonquin, Illinois; General Obligation

Primary Credit Analyst:
Scott Nees, Chicago + 1 (312) 233 7064; scott.nees@spglobal.com

Secondary Contact:
William Apple, Englewood 17202646662; william.apple@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Rating Above The Sovereign

Related Research

Summary:

Algonquin, Illinois; General Obligation

Credit Profile		
US$14.85 mil GO bnds ser 2024 dtd 06/20/2024 due 12/15/2036		
Long Term Rating	AAA/Stable	New
Algonquin Vill GO		
Long Term Rating	AAA/Stable	Affirmed
Algonquin Vill GO (SYNCORA GTY)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the village of Algonquin, Ill.'s series general obligation (GO) bonds.
- At the same, time, we affirmed our 'AAA' rating on the village's outstanding GO debt.
- The outlook is stable.

Security

The bonds are secured by the village's unlimited-tax GO pledge. Proceeds will go toward various capital improvements that primarily include park facility and road improvement projects.

Credit overview

Our 'AAA' credit rating on Algonquin's is underpinned by its seasoned management team and robust financial management planning framework, stable finances supported by a strong economy in suburban Chicago, and very low leverage with proactively managed pension liabilities. The home-rule village continues to see strong development activity that currently includes several single-family home subdivisions, ongoing industrial development in its corporate campus, and retail and restaurant development, including in the Algonquin Commons, one of the state's largest outdoor shopping centers. Management reports that, with new growth hitting the tax rolls, it expects to see high-single-digit growth in real estate valuations in the coming year, and we believe that medium-term growth prospects will remain favorable even as high interest rates and a slowing national economy will weigh on economic growth in the region and nationally. (For our latest U.S. macroeconomic forecast, see "Economic Outlook U.S. Q2 2024: Heading For An Encore," published March 26, 2024, on RatingsDirect.)

In fiscal years 2023 (audited) and 2024 (unaudited), Algonquin transferred reserves out of the general fund to pay for capital projects, but operating results otherwise reflected sizable surpluses in both years. Management indicates that because reserves are well above the village's 25% fund balance policy minimum and 50% target, the village has elected to transfer excess funds to finance a share of its pay-as-you-go capital program, which it expects to continue to do until reserves reach the 50% target. Prior to a $5.5 million transfer out, fiscal 2024 concluded with revenue exceeding expenditures by $3.8 million (16.6% of expenditures). The 2025 budget is structured for another operating surplus but with an additional reserve draw following transfers out. Management has noted the potential for revenue loss if a proposal for the state's fiscal 2025 budget to eliminate the statewide 1% tax on groceries is passed, but we understand the village is already preparing contingency plans to absorb the loss if it needs to and otherwise has a large enough structural budget surplus to do so without jeopardizing budgetary balance, in our view. With a stable revenue profile, good economic growth prospects, and high staff retention with good labor relations, we see few significant near-term operational challenges that we think would translate to material rating pressure.

The 'AAA' rating further reflects our view of the village's:

- Per capita effective buying income (EBI) and market value that, while generally weaker than 'AAA' medians, are poised to remain stable or grow in the coming years as the community is well-located and continues to see above-average growth for the region;
- Strong financial performance with an operating budget funded through diverse revenue streams that include sales (37% of 2025 budgeted revenue), property (27%), and income (24%) taxes with ample rate-setting flexibility due to the village's home-rule status, and a solid financial management framework that includes long-term forecasting and regular budget monitoring and reporting;
- Strong pension funding discipline with manageable liabilities: the village has adopted a formal pension funding policy requiring actuarially determined pension contributions to its single-employer police pension fund sized to fully fund the net pension liability by 2033, which is notable compared to in-state peers and reduces outyear risk of cost escalation;
- Net direct debt (excluding Illinois EPA loans supported by the village's enterprise funds) totaling $15.7 million, which is low as a share of the budget, with no additional bonding plans; the village has typically funded the majority of its capital needs on a pay-as-you-go basis and has only periodically issued debt to fund larger projects, a practice that we expect will continue;
- Very strong management and strong Financial Management Assessment (FMA): the village has long-term financial and capital improvement plans, detailed policies that are regularly reviewed governing reserves, debt, pensions, and investments, and regularly reports to the village board on finances and other key performance metrics; and
- Strong institutional framework as a home-rule Illinois village, a status that confers significant taxing and bonding flexibility without the need for voter authorization.

Environmental, social, and governance

Environmental and social factors are neutral in our analysis, while risk management, culture, and oversight governance factors are favorable due to management's robust policy and long-term planning framework and its proactive planning around long-term risks, such as pensions.

Outlook

The stable outlook reflects our expectation that despite plans to spend reserves on capital projects, the village's general fund balance will remain above the 25% minimum required by its fund balance policy, and likely closer to the 50% target included in the policy.

Downside scenario

We could lower the rating if the village were to draw reserves below its 25% fund balance policy minimum without a plan for timely replenishment.

Rating Above The Sovereign

The village's GO bonds are eligible to be rated above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management with no history of federal government intervention, and we believe Algonquin's financial flexibility is sufficiently demonstrated by its very strong budgetary reserves and liquidity.

Algonquin, IL -- Key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	118			
Market value per capita ($)		113,251		
Population			29,785	29,342
County unemployment rate(%)			4.1	
Market value ($000)		3,373,188	3,132,120	3,055,266
Ten largest taxpayers % of taxable value	5.0			
Strong budgetary performance				
Operating fund result % of expenditures		(5.8)	10.1	5.0
Total governmental fund result % of expenditures		(1.7)	7.5	3.9
Very strong budgetary flexibility				
Available reserves % of operating expenditures		65.7	74.9	78.4
Total available reserves ($000)		18,008	19,496	17,002
Very strong liquidity				
Total government cash % of governmental fund expenditures		118	74	85
Total government cash % of governmental fund debt service		247,928	235,409	236,891
Very strong management				
Financial Management Assessment	Strong			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		0.0	0.0	0.0
Net direct debt % of governmental fund revenue	42			
Overall net debt % of market value	2.5			
Direct debt 10-year amortization (%)	64			
Required pension contribution % of governmental fund expenditures		7.4		

Algonquin, IL -- Key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022