

RatingsDirect®

Summary:

Rochelle, Illinois; General Obligation

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Summary:

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Credit Profile

US\$4.5 mil GO bnds (alternate rev source) ser 2018 due 01/01/2027		
<i>Long Term Rating</i>	A+/Stable	New
Rochelle taxable GO bnds		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Rochelle GO (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Rochelle, Ill.'s series 2018 general obligation (GO) bonds (alternate revenue source). At the same time, S&P Global Ratings affirmed its 'A+' long-term rating on the city's existing GO debt and GO debt certificates. The outlook is stable.

The series 2018 GO bonds are secured by its unlimited-tax GO pledges along with pledged revenues. According to the bond ordinance, the city will abate the annual property tax debt service levy only to the extent that pledged revenue are on deposit at the time of abatement. Our rating is based on the unlimited-tax GO pledge, which we view as the stronger security. Proceeds from the city's series 2018 GO bonds will be used to finance infrastructure improvements within the city.

The city's series 2015A and 2017A GO debt certificates are payable from legally available funds of the city, and pursuant to S&P Global Ratings' "Issuer Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness Criteria", published Jan. 22, 2018, on RatingsDirect, we rate these certificates on par with the city's GO rating. We rate the certificates on par with the city's general creditworthiness, or equivalent to a GO rating, with no notching because we believe the village's ability to pay is closely tied to obligor's operations, which is reflected in the ICR, or GO rating.

The city's existing series 2013 alternate revenue source bonds are secured by its unlimited-tax GO pledge along with certain pledged revenue. Pledged revenue consists of tax-increment finance (TIF) revenue and other lawfully available funds of the city. According to the bond ordinance, the city will abate the annual property tax debt service levy only to the extent that pledged revenue are on deposit at the time of abatement. Our rating is based on the unlimited-tax GO pledge, which we view as the stronger security.

The city's series 2009 and 2017B GO bonds are secured by the city's unlimited tax GO pledge.

Although the city has achieved strong budgetary performance in recent years, leading to a very strong available fund balance, in our view, the city's economic weaknesses currently limit upward potential for the rating. In particular, we view the city's 30% top taxpayer concentration and below average per capita effective buying income as factors that constrain the rating. Despite this, the city's strong management and very strong liquidity are positive credit factors for

the city.

The city's 'A+' rating reflects the following characteristics of the city:

- Weak economy, with market value per capita of \$82,718 and projected per capita effective buying income at 77.9% of the national level;
- 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 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 113.4% of total governmental fund expenditures and 32.9x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.4% of expenditures and net direct debt that is 80.4% of total governmental fund revenue, as well as rapid amortization, with 65.4% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Adequate institutional framework score.

Weak economy

We consider Rochelle's economy weak. The city, with an estimated population of 9,041, is located in Ogle County. The city has a projected per capita effective buying income of 77.9% of the national level and per capita market value of \$82,718. Overall, the city's market value grew by 7.5% over the past year to \$747.8 million in 2018. The county unemployment rate was 5.0% in 2017.

Rochelle is located in Ogle and Lee counties, approximately 76 miles west of Chicago and 25 miles south of Rockford, just north of Interstate 88. As an employment center for the region, the base is diversified in distribution, technology, food processing, and manufacturing. A transportation intermodal facility takes advantage of the city's connection between two major railroad lines. Major employers in the area include pork processor Rochelle Foods (750 employees), Rochelle Community Hospital (245) and food manufacturer Sara Lee (213). In August 2018, the city's second-largest employer, Nippon Sharyo Manufacturing, closed. We understand that Nippon Sharyo still owns the manufacturing site and is looking for a buyer. We note that the city's top 10 taxpayers represent 30% of the tax base; the rating could be pressured should the city's top 10 taxpayer concentration reach 35%. We do not anticipate our view of the city's economy to change from weak during the next few years.

Strong management

We view the city'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.

Elements of the city's financial management and policies include:

- Realistic and well-grounded assumptions when setting the annual budget;

- Monthly budget-to-actual monitoring with reports to city council;
- Lack of formally maintained long-term financial projections;
- Formal five-year capital plan that is updated annually and presented to the council;
- Formal investment management policy, which mirrors state guidelines, with monthly investment reports given to city council;
- Lack of a formal debt management policy; and
- A formal fund balance policy that calls for available reserves to be a minimum of 10% of annual budgeted expenditures.

Strong budgetary performance

Rochelle's budgetary performance is strong in our opinion. The city had balanced operating results in the general fund of 0.1% of expenditures, and surplus results across all governmental funds of 17.6% in fiscal 2017.

The fiscal 2017 budget (year ending Dec. 31, 2017) was structured as a slight surplus of \$12,000 (0.1%) in the general fund, and the city essentially met its budget, after transfers, with a \$17,533 surplus result. Primary revenue sources for the city's adjusted general fund revenue include transfers from the electric utility (21.2%), sales taxes (19.9%), property taxes (18.9%), and state shared income taxes (9.2%). For fiscal 2018, the city budgeted for a 0.7% surplus in the general fund, and officials report that the city's results are currently meeting budgeted expectations. The fiscal 2018 general fund budget was structured to reduce certain expenditures, primarily through early retirement incentives and consolidation of departments. The city expects to adopt a break-even fiscal 2019 general fund budget. We anticipate that the city's budgetary performance will remain strong.

Very strong budgetary flexibility

Rochelle's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 21% of operating expenditures, or \$2.0 million.

With a forecasted result in line with its fiscal 2018 balanced budget, we expect the city's budgetary flexibility to remain very strong. The city has no significant plans to draw down its general fund reserves, which should enable it to maintain a reserve level well above at least 15% of expenditures.

Very strong liquidity

In our opinion, Rochelle's liquidity is very strong, with total government available cash at 113.4% of total governmental fund expenditures and 32.9x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

The city has demonstrated its ability to access capital markets, having issued GO debt semi-frequently within the past 20 years, which supports our view that it has strong access to external sources of liquidity if needed, in addition to having strong internal liquidity. The city has no exposure to direct-purchase or variable-rate debt, and otherwise has no contingent liquidity exposure. We anticipate that the city's liquidity will remain very strong.

Adequate debt and contingent liability profile

In our view, Rochelle's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.4% of total governmental fund expenditures, and net direct debt is 80.4% of total governmental fund revenue.

Approximately 65.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We have revised our view of the city's debt and contingent liability profile from weak to adequate based on our view of the city's amortization improving to a level of debt retirement greater than 65% within 10 years. The city does not have any significant medium-term debt it expects to issue during the next two years.

In our opinion, a credit weakness is Rochelle's large pension and OPEB obligation. Rochelle's combined required pension and actual OPEB contributions totaled 13.5% of total governmental fund expenditures in 2017. The city made 100% of its annual required pension contribution in 2017. The funded ratio of the largest pension plan is 65.3%.

The city's employees, other than police and firefighters, are covered by the cost-sharing multiple-employer Illinois Municipal Retirement Fund (IMRF). The IMRF plan has a net pension liability of \$4.6 million, with a plan fiduciary net position as a percentage of the total pension liability of 88.1% in 2016. The police and firefighters are covered by separate defined-benefit, single-employer pension plans. The city pays into these two plans according to the state's actuarial rules, which are not the same as those followed by the city's auditors. The city's police pension plan is 65.3% funded, with a net pension liability of \$5.9 million. The firefighters' pension plan is 63.4% funded, with a net pension liability of approximately \$5 million. The city currently maintains a pension funding policy of reaching 100% funding in its police and firefighters' plans by 2040. In addition, the city is considering adopting a new pension funding policy that would require it to make additional contributions to the police and firefighters' plan. With regard to OPEB, the city does not subsidize retiree health care, but allows retirees to stay on its health insurance plan at their own expense.

Adequate institutional framework

The institutional framework score for Illinois non-home rule cities and villages not subject to the Property Tax Extension Limitation Law is adequate.

Outlook

The stable outlook reflects our expectation that the rating will not change in the next two years, because we believe the city will maintain at least balanced operations in most years and maintain at least strong reserves in accordance with its fund balance policy.

Upside scenario

We could consider a higher rating if there was a moderation in taxpayer concentration and improvement in the city's income metrics, which are below average, combined with continued very strong reserves and full annual funding of actuarially determined pension contributions.

Downside scenario

We could consider a lower rating should the city experience weakened budgetary performance leading to a deterioration in the city's budgetary flexibility.

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
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 31, 2018)

Rochelle taxable GO bnds (tax incre fing alternate rev source) (RZEDBs) ser 2010 dtd 12/14/2010 due 12/01/2013-2019 2024 2027 2030

<i>Long Term Rating</i>	A+/Stable	Affirmed
Rochelle GO (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.

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