S&P Global
Ratings

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## Summary:
# Rochelle, Illinois; General Obligation

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## Summary:

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| Credit Profile | | |
|---|---|---|
| US$4.67 mil GO bnds (elec sys alternate rev source) ser 2023 due 05/01/2038 | | |
| *Long Term Rating* | AA-/Stable | New |
| Rochelle GO | | |
| *Long Term Rating* | AA-/Stable | Upgraded |
| Rochelle GO | | |
| *Long Term Rating* | AA-/Stable | Upgraded |
| Rochelle GO (AGM) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |
| Rochelle GO (AGM) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |
| Rochelle GO (AGM) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |
| Rochelle GO (AGM) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |
| Rochelle GO (BAM) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |

Many issues are enhanced by bond insurance.

## Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA-' from 'A+' on Rochelle, Ill.'s general obligation (GO) bonds and debt certificates outstanding.
- At the same time, we assigned our 'AA-' long-term rating to the city's approximately $4.7 million series 2023 GO bonds (electric system alternative revenue source).
- The outlook is stable.
- The rating action reflects our view of the city's improved reserve position that we anticipate will remain a strength over the two-year outlook horizon, its growing local economy, and its improved pension funded status with plans to close the pension funding gap by 2040.

### Security

An unlimited-tax GO pledge and pledged revenue secure the series 2023 bonds. According to the bond ordinance, the city will abate the annual property tax debt-service levy only to the extent that electric system revenue is on deposit at the time of abatement. Our rating reflects the unlimited-tax GO pledge, as we have insufficient information to rate to the electric system revenue pledge under our criteria.

The city's GO debt certificates outstanding are payable from legally available funds of the city, and we rate these certificates on par with the city GO rating as we see no unusual limits on the fungibility of resources with which to make debt payments and believe that our assessment of the city's general creditworthiness captures its ability and willingness to pay.

### Credit overview

Reserves have greatly improved after six consecutive operating surpluses, with another surplus estimated for fiscal 2022 and no plans to draw down reserves over the next two years. Despite originally budgeting for a deficit, the city estimates a robust surplus in fiscal 2022 of $1.7 million, or 14% of estimated expenditures, largely as a result of positive variances in sales tax, state income tax, and personal property replacement tax revenue. Based on estimated results, the reserve position on an unaudited basis grew to $10.9 million, or 90% of estimated operating expenditures, in 2022. The 2023 budget reflects a deficit, but officials anticipate outperforming budget based on increased sales tax collections year to date.

Although the city routinely achieves strong budgetary performance most years, leading to a very strong available fund balance, in our view, economic weaknesses limit further upward rating potential. In particular, we view the city's 37% leading taxpayer concentration and below-average per capita effective buying income as constraining rating factors. Debt service, pension, and other postemployment benefit payments in 2021 totaled 19.8% of total governmental funds expenditures, which is somewhat elevated, in our view, and represents an additional constraining rating factor. However, the city exceeded 100% of our minimum funding progress across all pension plans in 2021, which we believe will continue given additional annual contributions for both single-employer plans and discount rates of 6.75%.

The 'AA-' rating reflects our view of the city's:

- Routine general fund operational surpluses that have led to very strong and sizable available general fund reserves with no plans to spend down over the next two years
- Good financial management practices and policies under our financial management assessment framework--reflecting conservative budgeting practices, robust budget reporting and long-term capital planning, and a formal fund balance policy of maintaining a minimum of 10% of operating expenditures in reserves and transferring balances in excess of 40% to the capital fund to support pay-as-you-go projects that the city plans to undergo over the next three to five years--and an institutional framework score we consider adequate.
- Adequate debt and contingent liability profile with no near-term debt plans and pension funding ratios that have improved in recent years. The city funds above and beyond its actuarially determined contributions by allocating the entirety of video gaming revenue to its single-employer firefighters and police pension plans, which were funded at 87% (with a net pension liability of $1.9 million) and 70% ($6.1 million), respectively as of Dec. 31, 2021. The city adopted a resolution approving these transfers until at least 100% funding is achieved.
- Taxpayer concentration, coupled with relatively low income metrics, although we note a significant industrial and commercial presence in the city and additional growth anticipated through railroad expansion and new businesses coming on line

### Environmental, social, and governance

We have assessed environmental, social, and governance factors relative to the city's economy, budgetary outcomes, management, and debt and liability profile, and view them as neutral in our credit rating analysis.

## Outlook

The stable outlook reflects our view that the city will maintain a robust liquidity and reserve position while continuing to contribute above and beyond its actuarially determined contributions for its single-employer defined pension benefit plans. While officials anticipate some spend-down in reserves over the next three to five years, we anticipate that healthy reserves and at least adequate pension funded ratios will be maintained given management strengths and at least a stable local economy.

### Downside scenario

We could take negative rating action if budgetary performance were to significantly weaken, resulting in reserves falling to a level below the city's policy ceiling of 40% of operating expenditures, or if the city were to discontinue its practice of over-contributing to its single-employer pension plans prior to a well-funded status.

### Upside scenario

We could take positive rating action if taxpayer concentration were to moderate and if income, which is below average, were to improve, coupled with continued very strong reserves.

**Rochelle key credit metrics**

| | Most recent | Historical information | | |
|---|---|---|---|---|
| | | 2021 | 2020 | 2019 |
| **Weak economy** | | | | |
| Projected per capita EBI as % of U.S. | 84 | | | |
| Market value per capita ($) | 101,214 | | | |
| Population | | 8,715 | 8,835 | 8,918 |
| County unemployment rate (%) | | 5.8 | | |
| Market value ($000s) | 882,081 | 779,310 | 764,610 | 675,897 |
| Ten largest taxpayers as % of taxable value | 37.2 | | | |
| **Strong budgetary performance** | | | | |
| Operating fund result as % of expenditures | | 9.2 | 10.4 | 5.9 |
| Total governmental funds result as % of expenditures | | 3.6 | 5.8 | 9.9 |
| **Very strong budgetary flexibility** | | | | |
| Available reserves as % of operating expenditures | | 85.9 | 81.9 | 34.2 |
| Total available reserves ($000s) | | 9,287 | 8,265 | 3,483 |
| **Very strong liquidity** | | | | |
| Total government cash as % of governmental funds expenditures | | 314 | 282 | 164 |
| Total government cash as % of governmental funds debt service | | 4489 | 3975 | 5918 |
| **Strong management** | | | | |
| Financial management assessment | Good | | | |
| **Adequate debt and long-term liabilities** | | | | |
| Debt service as % of governmental funds expenditures | | 7.0 | 7.1 | 2.8 |
| Net direct debt as % of governmental funds revenue | 168 | | | |

| Rochelle key credit metrics (cont.) | | | | |
|---|---|---|---|---|
| | Most recent | Historical information | | |
| | | 2021 | 2020 | 2019 |
| Overall net debt as % of market value | 4.6 | | | |
| Direct debt 10-year amortization (%) | 71 | | | |
| Required pension contribution as % of governmental funds expenditures | | 12.2 | | |
| OPEB actual contribution as % of governmental funds expenditures | | 0.6 | | |
| **Adequate institutional framework** | | | | |

Note: Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

## Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments