S&P Global Ratings

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Summary:

Evanston, Illinois; General Obligation

Primary Credit Analyst:
David H Smith, Chicago + 1 (312) 233 7029; david.smith@spglobal.com

Secondary Contact:
Joseph Vodziak, Chicago + 1 312 233 7094; joseph.vodziak@spglobal.com

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Credit Profile		
US$19.758 mil WIFIA loan due 12/01/2056		
Long Term Rating	AA/Stable	New
US$14.27 mil GO corp purp bnds ser 2021 due 12/01/2041		
Long Term Rating	AA/Stable	New
Evanston GO corp purp bnds		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the city of Evanston, Ill.'s approximately $14.2 million series 2021 general obligation (GO) corporate purpose bonds and $20 million Water Infrastructure Finance and Innovation Act (WIFIA) loan. At the same time, we affirmed our 'AA' long-term rating on the city's existing GO debt. The outlook is stable.

The series 2021 GO bonds are secured by the city's unlimited-tax GO pledge. The WIFIA bonds are secured by the city's unlimited-tax GO pledge, with payments expected to be made from the city's water system. Proceeds from the series 2021 bonds will be used for capital improvements within the city and to refund the city's series 2012A GO corporate purpose bonds for interest cost savings. Proceeds from the WIFIA loan will be used for the replacement of a raw water intake structure for the city.

Credit overview

Despite a reduction in key revenue due to the effects of the COVID-19 pandemic, Evanston navigated a difficult 2020 successfully, highlighting management's strengths. Overall, the city is characterized by a diverse economy that is independently very strong, with Northwestern University providing an anchor of stability, with access to the broad and diverse Chicago MSA. Recent financial performance has been positive, with three consecutive surpluses, a trend that is expected to continue. We view Evanston's increasing pension payments as the greatest financial pressure in the medium-to-long term, as the city's plans are poorly funded and we expect costs will increase.

The ratings reflect our assessment of Evanston's:

- Very strong economy, highlighted by the city's access to the broad and diverse Chicago MSA and the presence of Northwestern University, which we consider a stabilizing institution;
- Budgetary performance that has benefitted from active managerial oversight of key revenues and expenditures, leading to consistently positive operations; and
- Strong management policies under our Financial Management Assessment (FMA).

Partly offsetting these strengths is the city's very weak debt and pension profile, which is hampered by significantly underfunded public safety pensions.

Environmental, social, and governance (ESG) factors

The rating incorporates our view of the city's social risk factors, which we consider to be consistent with the sector standard. We also view the district's environmental and governance risks to be in line with the sector standard.

Stable Outlook

Upside scenario

We could raise the rating if Evanston were to sustain positive operations, leading to material increases in its reserves, coupled with significant improvement in the funding levels of its public safety pension plans.

Downside scenario

We could lower the rating if the city's budgetary performance weakens for a sustained period, resulting in materially lower reserves.

Credit Opinion

Very strong economy, with access to the broad and diverse Chicago MSA, and benefitting from the presence of Northwestern University

Evanston is just north of Chicago and is home to Northwestern University, one of the top universities in the nation. The university is the city's largest employer (5,700 employees) and represents a stabilizing institution for the city, as Evanston relies on the student population and university visitors for much of its economic activity. With the university using remote learning for the 2020-2021 school year, its normal contributions to the economy were dampened, though the overall local economy remained relatively healthy. Among comparable suburbs in the Chicago MSA, Evanston is a desirable place to live, with diverse employment opportunities, very strong public schools, and close access to downtown Chicago.

The city's market value grew by 26.5% in the past year to $10.3 billion in 2020, reflecting the substantial tax base appreciation arising out of its triennial reassessment. Cook County's unemployment rate was 11.1% in 2020, which we consider a negative credit factor, though we anticipate that this will improve as the effect of the pandemic lessens in 2021.

Strong budgetary performance, with very strong budgetary flexibility and liquidity

The city posted three consecutive audited general fund surpluses from 2018-2020 (fiscal year-end Dec. 31), and its fiscal 2020 surplus reflects conservative budgeting practices in the wake of the pandemic.

For fiscal 2021, officials indicate that the city is on track to post a $3 million general fund surplus. Contributing to this forecast is higher-than-budgeted sales tax revenue. The city has been allocated $43.1 million pursuant to the American Rescue Plan Act.

In fiscal 2020, Evanston posted a $2.7 million surplus in its general fund, which was fueled by positive variances in building permit revenue and personnel cost reductions achieved, in part, through employee furloughs and a hiring freeze. The largest revenue source for the general fund is property taxes, representing 27% of revenue, which held steady during the pandemic in 2020, and charges for services (15%). Other major revenue sources include sales, hotel, athletic, and parking taxes, which were down approximately $5 million, but were offset in part through significant expenditure reductions, which totaled $7.4 million less than originally budgeted.

Our view of Evanston's budgetary flexibility has improved to very strong from strong, based on the city's available fund balance exceeding 15% of expenditures in audited fiscal 2020. Based on the city's forecast surplus in fiscal 2021, we expect that it will remain very strong. Evanston's very strong liquidity position is highlighted by approximately $49.3 million in cash at fiscal year-end 2020.

Strong management, with good financial policies and practices under our FMA

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

Management has a comprehensive budgeting process that uses historical data and outside information to project budgeted revenues and expenditures. The city council adopts a detailed two-year budget, and maintains a five-year capital improvement plan that is updated every two years and identifies sources and uses of funds. The council reviews budget-to-actual results monthly and investment holdings quarterly. Evanston adopted a fund balance policy to work toward a general fund balance of 16.6% of general fund expenditures and met this goal for the first time in fiscal 2020. It also has a debt management policy and investment policy.

Very weak debt and contingent liability profile, with poorly funded pensions

Evanston's debt and pension profile is characterized by a relatively stable debt profile, but substantially underfunded pensions. Annual debt service costs averaged approximately 10.7% to 11.4% of total governmental fund expenditures in the past three years. The city does not have any significant new money debt plans during the next few years.

In our opinion, a credit weakness is Evanston's large pension and OPEB obligation. Although management has taken certain steps to address the city's pension funding deficiencies, the city will most likely carry its significant public safety pension liabilities for quite some time. Combined required pension and actual OPEB contributions were 16.5% of total governmental fund expenditures in 2020. Of that amount, 16% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The city made its full annual required pension contribution in 2020. The funded ratio of the largest pension plan is 60.9%.

- Based on low-to-moderate funding for the police and fire pension plans and the magnitude of the city's net liability, we think pension costs will likely remain elevated and increase during the coming years.

Evanston contributes to the following defined-benefit pension plans:

- A single-employer police pension plan: 60.9% funded, with an employer net pension liability (NPL) of $101.6 million as of Dec. 31, 2020;
- A single-employer firefighters pension plan: 53% funded, with an employer NPL of $90.7 million as of Dec. 31, 2020;

- Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan: 101.3% funded, with an employer net pension asset of $3.4 million as of Dec. 31, 2020; and
- Illinois Post-Employment Health Care Benefit Plan, a single-employer OPEB plan: 0% funded, with an employer net liability of $22.1 million as of Dec. 31, 2020.

The police plan uses a 6.5% discount rate, which is above our 6.0% guideline and, along with the static mortality assumption, could lead to contribution volatility for the city. The city's actuarially determined contribution (ADC) is at the statutory level, reflecting a 90% funding goal by 2040, which we view as a fairly weak funding metric that defers costs into the future. However, we view positively the city's assumption of level-dollar amortization. In fiscal 2020, police pension plan contributions were 91% of our minimum funding progress metric and 123% of static funding.

IMRF uses a 7.25% statewide discount rate, which is above our 6.0% guideline and could lead to contribution volatility for the city. Evanston pays its full ADC annually to IMRF, although it includes annual increases of 3.4%. In fiscal 2020, IMRF contributions were 108% of our minimum funding progress metric.

Evanston funds its OPEB on a pay-as-you-go basis, which we view negatively, but we consider the liabilities manageable.

Strong institutional framework

We consider home rule municipalities in Illinois like Evanston to have a strong institutional framework score.

Evanston, Illinois -- Key Credit Metrics				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Very strong economy				
Projected per capita EBI % of U.S.	150.3			
Market value per capita ($)		139,875		
Population		74,754	75,682	75,590
County unemployment rate (%)		11.1		
Market value ($000)		10,456,206	8,401,524	8,726,817
Top 10 taxpayers % of taxable value		7.7		
Adequate budgetary performance				
Operating fund result % of expenditures		2.4	1.8	0.4
Total governmental fund result % of expenditures		(1.1)	0.2	0.0
Very strong budgetary flexibility				
Available reserves % of operating expenditures		16.2	13.4	11.7
Total available reserves ($000)		18,455	15,475	13,545
Very strong liquidity				
Total government cash % of governmental fund expenditures		33.2	42.9	25.4
Total government cash % of governmental fund debt service		311.3	375.3	236.6
Strong management				
Financial Management Assessment	Good			

Evanston, Illinois -- Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		10.7	11.4	10.8
Net direct debt % of governmental fund revenue	125.8			
Overall net debt % of market value	3.6			
Direct debt 10-year amortization (%)	55.2			
Required pension contribution % of governmental fund expenditures		16.0		
OPEB actual contribution % of governmental fund expenditures		0.6		
Strong institutional framework				

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

Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013