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## Summary:

# Northbrook Village, Illinois; General Obligation

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Summary:

# Northbrook Village, Illinois; General Obligation

Credit Profile		
US\$8.765 mil GO rfdg bn ds ser 2024 due 12/01/2036		
Long Term Rating	AAA/Stable	New
Northbrook Vill GO		
Long Term Rating	AAA/Stable	Affirmed

## Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Northbrook Village, Ill.'s anticipated \$8.7 million series 2024 general obligation (GO) refunding bonds.
- At the same time, we affirmed our 'AAA' rating on the village's existing GO debt.
- The outlook is stable.

## Security

The village's unlimited ad valorem tax GO pledge secures its series 2024 bonds and its existing GO debt. Proceeds of the bonds will be used to refund portions of the village's existing series 2013A and 2013B bonds.

## Credit overview

The 'AAA' rating reflects the strengths of Northbrook's local economy, highlighted by its extremely strong market value per capita and high incomes. Despite the village's large unfunded pension obligation associated with its public safety pension plans, we expect it to maintain its very strong budgetary flexibility given our opinion of management's skill in maintaining strong operations. Northbrook's economy is unique in that it has access to the large Chicago metropolitan statistical area (MSA), a significant retail base, a very desirable and growing residential sector, and many small-to-large businesses. Reflecting tax base growth and reassessments, the village posted a 16.2% increase in valuation in levy year 2022, the most recent year available. We note that it is undertaking a significant redevelopment project involving its shopping mall Northbrook Court, which will be converted into a mixed-use development featuring high-end retail and new residential properties.

The village's finances are characterized by surpluses most years with a healthy reserve. In fiscal 2023, Northbrook reported a 12.4% general fund surplus, which reflected a combination of strong income and corporate personal property tax replacement revenue, better-than-budgeted permit revenue, and robust interest income. Expenditures also outperformed budget in fiscal 2023 because of personnel vacancies. At the end of fiscal 2023 (year-end April 30), the village maintained 62.6% of general fund expenditures in reserve, or approximately \$30 million.

For unaudited fiscal 2024, it expects to post a 1.9% general fund surplus after discretionary transfers to its capital projects fund and police and firefighter pension plans. The village's fiscal 2025 budget is balanced, with another general fund surplus anticipated. While its weak debt profile is aided, in our view, by its rapid amortization and low

debt as a percentage of market value, these strengths are offset by its large unfunded pension obligations. Specifically, the village's police and firefighters' pension plans were 57.6% and 53.5% funded at the end of fiscal 2023, respectively, with collective liabilities over \$100 million. It has attempted to increase funding to its police and firefighters' plans with annual distributions out of general fund surpluses beyond its required annual contributions, a practice it has maintained in recent years and expects to continue.

We note that the village could issue an additional \$7 million in GO debt during the two years for water and sanitary sewer projects and that it is a party to a loan with a bank that it entered in 2020, which we do not view as contingent liability risk.

The 'AAA' rating and stable outlook reflect our view of the village's:

- Very strong economic profile with access to the broad and diverse Chicago MSA, characterized by extremely strong wealth and income levels;
- Trend of general fund surpluses, reflecting operational flexibility and robust reserve levels, budgetary patterns that we anticipate will continue in the next few years;
- Large unfunded pension obligations associated its public safety pension plans and high annual pension costs; and
- Good financial management practices under our Financial Management Assessment, highlighted by a 40% reserve policy and a five-year annually-updated capital improvement plan, coupled with a strong institutional framework.

### **Environmental, social, and governance**

The village proactively manages its cybersecurity risk with training exercises, 24/7 cyber risk monitoring, and an IT department headed by a chief information officer. In addition, unique among municipalities its size, it has developed a climate action plan. We view these efforts as positive governance and environmental factors. We also view Northbrook's social governance factors as being neutral.

## **Outlook**

The stable outlook reflects our view of the village's trend of fiscal stability, economic growth, and very strong reserves, which we expect to continue. We do not expect to change the rating within the two-year outlook horizon.

### **Downside scenario**

We could consider a negative rating action if Northbrook's operational performance weakens in a manner that leads to a material worsening of its budgetary flexibility. We could also do so if the village's fixed costs, including debt and pensions, increase significantly compared with expenditures and begin to affect its ability to maintain balanced operations.

## **Rating Above The Sovereign**

Northbrook's GO debt is eligible to be rated above the sovereign because we believe the village 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, on RatingsDirect), U.S. local governments are considered moderately sensitive to country risk. Northbrook has pledged its GO ad valorem unlimited tax revenue as the sole source of security on the bonds. This severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the village. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Also, Northbrook has very strong financial flexibility, as its very strong budgetary flexibility and liquidity demonstrate.

Northbrook Village, IL -- Key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	190			
Market value per capita (\$)	288,234			
Population		32,216	31,998	
County unemployment rate(%)		5.0		
Market value (\$000)	9,285,759	7,958,454	8,579,919	
Ten largest taxpayers % of taxable value	9.7			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		12.4	5.2	(8.4)
Total governmental fund result % of expenditures		8.9	12.5	(6.1)
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		62.6	53.0	42.8
Total available reserves (\$000)		29,926	22,968	19,083
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		102	116	95
Total government cash % of governmental fund debt service		907	890	727
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		11.3	13.1	13.0
Net direct debt % of governmental fund revenue	125			
Overall net debt % of market value	2.5			
Direct debt 10-year amortization (%)	73			
Required pension contribution % of governmental fund expenditures	15.5			
OPEB actual contribution % of governmental fund expenditures	1.1			
<b>Strong institutional framework</b>				

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
- Credit Conditions North America Q3 2022: Credit Headwinds Turn Stormy, June 28, 2022
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 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

Ratings Detail (As Of May 14, 2024)		
Northbrook Vill taxable GO bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Northbrook Vill GO bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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