MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO THE VILLAGE OF NORTHBROOK'S (IL) $2.8 MILLION GO BONDS, SERIES 2011

Global Credit Research - 19 Oct 2011

Aaa RATING APPLIES TO $75.6 MILLION OF OUTSTANDING GO DEBT, INCLUDING CURRENT OFFERING

Municipality
IL

Moody's Rating

ISSUE	**RATING**
General Obligation Bonds, Series 2011	Aaa

Sale Amount	$2,755,000
Expected Sale Date	10/25/11
Rating Description	General Obligation

Opinion

NEW YORK, Oct 19, 2011 -- Moody's Investors Service has assigned a Aaa rating to the Village of Northbrook's (IL) $2.8 million General Obligation Bonds, Series 2011. Concurrently, Moody's has affirmed the outstanding Aaa rating affecting $75.6 million of post-sale general obligation debt.

SUMMARY RATINGS RATIONALE

The bonds, which are secured by the village's general obligation unlimited tax pledge, will fund the construction of a neighborhood water detention facility to provide flooding relief for surrounding neighborhoods, as well as funding a project plan for two additional storm water management projects and associated street maintenance. Assignment and affirmation of the highest quality Aaa reflects the village's large tax base with above average socioeconomic indicators; strong financial position with significant revenue raising flexibility despite ongoing planned draws on reserves; and a manageable debt profile.

STRENGTHS

-Wealthy demographic profile and tax base located in Chicago metro

-Strong financial operations with ample reserves

CHALLENGES

-Declining property valuations

-Dependence on economically-sensitive revenue streams for operations

DETAILED CREDIT DISCUSSION

SIZEABLE AND DIVERSE TAX BASE; AFFLUENT RESIDENT POPULATION

The village's mature tax base is expected to continue to remain healthy despite a recent decline in full valuation given continued commercial and retail investment, high quality residential construction and strong demographic profile. Northbrook is located in suburban Cook County (GO rated Aa3/stable outlook), 26 miles north of Chicago (GO rated Aa3/stable outlook), and benefits from ease of access to downtown Chicago. The village's local economic base is diverse, combining corporate offices and commercial developments with a wealthy residential base. Northbrook Court, a large regional mall featuring high-end shopping outlets, anchors a sizeable retail sector. The Willow Festival retail center, located at the intersection of Willow and Waukegan roads, continues to experience development. The retail development houses a variety of restaurants and shops, including Lowe's, Whole Foods, REI, and Best Buy stores. Village management notes continued retail development, including the opening of three new retail outposts in Northbrook Court mall and a new anchor tenant at Village Square Shopping Center. The rehabilitation of Northbrook Garage building continues with two retail stores recently agreeing to anchor the development. The healthy retail growth, continued office expansion, high-valued residential construction and appreciation contributed to a satisfactory 3.6% average annual rate of full valuation growth from 2005 through 2010. Resident income indices far outpace state and national norms, with per capita and median family incomes equivalent to 235.2% and 221.4% of national figures, respectively. Similarly, the village's Census 2000 median home value of $370,800 is equivalent to 310% of the national mark.

STRONG FINANCIAL POSITION DESPITE PLANNED DRAW DOWN OF RESERVES; SIGNIFICANT REVENUE RAISING FLEXIBILITY PROVIDED BY HOME RULE STATUS

The village's financial operations will likely remain sound given its healthy reserve levels and substantial operating flexibility provided by its home rule status, despite ongoing planned draws on General Fund reserves above its 40% reserve policy. Audited results from fiscal 2009 ending April 30 indicate a draw on reserves of $185,000 as the village experienced a negative budgeted-to-actual variance of $1.3 million in its sales tax revenues. Despite the decline, and in part due to increases in other revenue streams and prudent management practices, the village concluded fiscal 2009 with a General Fund balance of $19.1 million, or a healthy 48.7% of revenues. In fiscal 2010 the General Fund posted an operating deficit of $1.0 million, with $800,000 of the deficit due to planned capital and equipment expenditures. Revenues were $1.5 million below budgeted projections, but management offset most of the decline with $1.3 million in expenditure reductions, including the elimination of 14 full-time positions. The village closed fiscal 2011 with a General Fund operating deficit of $693,000 due to planned transfers to the water and parking funds. The transfers, totaling $1.45 million, were to offset a rate increase in the water fund for one year and to provide funding for resurfacing the commuter parking lot. Without the planned draw, the village would have closed the year with a $700,000 surplus as economically-sensitive revenues began to rebound, including sales tax collections that exceeded budgeted amounts by $450,000. General Fund reserves totaled a still healthy $17.3 million or 46.8% of General Fund revenues despite management's decision to spend down reserves.

For the current fiscal year the village has budgeted for another draw on General Fund balance, but has pledged to not fall below its policy of 40% of General Fund revenues in reserves. The planned operating deficit of $465,000 resulted from management's decision to keep its aggregate property tax levy flat, transferring some funds from the General Fund portion of the levy to the pension funds to offset increased employer contributions. The projected year-end balance is $16.8 million, which may be revised once outstanding union contracts are negotiated. Management , which is currently negotiating with all four bargaining units, budgeted for 0% wage increases in fiscal 2012, but recognize this may change, placing additional strain on the General Fund. It is noted, however, that the worst case scenario identified by the village would still result in ending reserves above the 40% fund balance policy. Furthermore, as a home rule municipality, the village maintains additional financial flexibility and is able to adjust a variety of tax rates as needed to increase revenues. While the planned draw on reserves has placed the village in an arguably riskier position, management's commitment to adhere to its fund balance policy and its significant revenue raising options sufficiently mitigate this situation. Going forward, however, Moody's will continue to monitor additional operating deficits, planned or not, in the General Fund.

MANAGEABLE DEBT PROFILE WITH LIMITEDFUTURE BORROWING PLANS

The village's debt profile is expected to remain favorable as current debt levels are modest and future debt plans are limited. The village's overall debt burden remains manageable at 2.5% of full valuation, with direct debt similarly favorable at 0.7%. The rate of principal amortization is below average with 60.1% of obligations retired within 10 years. The amortization rate reflects, in part, the 2004 sale of $16.6 million of pension obligation bonds structured with a balloon payment of $8.8 million in fiscal 2034. All of the village's debt is fixed rate, and the village is not a party to any interest rate swap agreements.

What could change the rating - DOWN

-Significant deterioration of tax base and/or declines in economically-sensitive revenues

-Substantial deterioration of reserve levels due to continued planned or unplanned operating deficits

KEY STATISTICS:

2010 Population: 33,170

2010 Full valuation: $8.7 billion

Full valuation per capita: $263,646

Overall debt burden (direct): 2.5% (0.7%)

Payout of principal (10 years): 60.1%

Fiscal 2011 General Fund balance: $17.3 million (46.8% of General Fund revenues)

1999 per capita income as a % of nation: 235.2%

1999 median family income as a % of nation: 221.4%

Post-sale GOULT debt outstanding: $75.6 million, including current offering

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Genevieve Nolan
Analyst
Public Finance Group
Moody's Investors Service

Edward Damutz
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA