# New Issue: Moody's assigns Aaa rating to the Village of Northbrook's (IL) $12.8 million Taxable GO Bonds, Series 2012A and $7.6 million GO Bonds, Series 2012B

Global Credit Research - 02 Nov 2012

**Aaa rating applies to $74.7 million of outstanding GO debt, including the current offering**

NORTHBROOK (VILLAGE OF) IL
Cities (including Towns, Villages and Townships)
IL

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| Taxable General Obligation Bonds, Series 2012A | | Aaa |
| **Sale Amount** | $12,800,000 | |
| **Expected Sale Date** | 11/13/12 | |
| **Rating Description** | General Obligation | |
| General Obligation Bonds, Series 2012B | | Aaa |
| **Sale Amount** | $7,630,000 | |
| **Expected Sale Date** | 11/08/12 | |
| **Rating Description** | General Obligation | |

**Moody's Outlook** NOO

**Opinion**

NEW YORK, November 02, 2012 --Moody's Investors Service has assigned a Aaa rating to the Village of Northbrook's (IL) $12.8 million Taxable General Obligation Bonds, Series 2012A and $7.6 million General Obligation Bonds, Series 2012B. Concurrently, Moody's has affirmed the outstanding Aaa rating affecting $74.7 million of post-sale general obligation debt.

SUMMARY RATINGS RATIONALE

Both series of bonds are secured by the village's general obligation unlimited tax pledge. The Series 2012A taxable bonds will refund the village's outstanding Series 2006 bonds for expected net present value savings. The Series 2012B bonds will refunding the village's Series 2004 and Series 2005 bonds for expected net present value savings. The Series 2012B bonds also include $1.8 million in new money for capital construction projects, including improvements to the village's storm water system, street maintenance, an ambulance purchase, and a vactor replacement project. 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 that is expected to return to balanced operations; and a manageable debt profile.

STRENGTHS

-Wealthy demographic profile and tax base located in the Chicago metro area

-Strong financial operations with ample reserves

-Financial flexibility afforded by Home-Rule designation

CHALLENGES

-Recent declines to property tax valuations

-Dependence on economically-sensitive operating revenues

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 ongoing declines 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/negative outlook), 26 miles north of Chicago (GO rated Aa3/negative 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 (long term rated A3/stable outlook), Whole Foods, REI, and Best Buy (long term rated Baa2/developing outlook) stores. Village management notes continued retail development, including an agreement to develop a new mixed use, high end rental property project that would likely include a new grocery store as an anchor tenant. Additional development is likely as two senior home facilities are expected to open and a big box retailer is in discussions to open on the old Com Ed property in the village. The village's largest employer is Allstate Insurance Company (long term rated Aa3/negative outlook), which employs over 5,000 people, but it does not pay property taxes to the village as it is located in unincorporated Cook County. Taxpayer concentration is limited, with no single payer representing 5% of more of 2011 equalized assessed valuation. Resident income indices far outpace state and national norms, with per capita and median family incomes equivalent to 210.8% and 206.5% of national figures, respectively, according to 2006-2010 estimates provided by the American Community Survey. The village's unemployment rate of 6.5% as of June 2012 was below that of the State of Illinois (9.3%) and the U.S. (8.4%) for the same time period.

STRONG FINANCIAL POSITION WITH EXPECTED RETURN TO BALANCED OPERATIONS; 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. From fiscal 2009 through fiscal 2012, the village has drawn down its General Fund reserves due to a mixture of negative budget variances and planned draws for capital expenditures. In fiscal 2009 the village drew down $185,000 of reserves following a negative budgeted-to-actual variance of $1.3 million in sales tax revenues. Despite the decline, and in part due to favorable variances 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 aimed at offsetting 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 expectation 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. In fiscal 2012 the village closed the year with an operating deficit of $752,000, which was more modest than the budgeted $1.1 million operating deficit. The difference was driven by a $428,000 gain in sales tax revenues and positive variances for key village expenditures, including snow removal, due to the milder than expected winter. The village also settled its four outstanding union contract negotiations, resulting in $400,000 in additional salary expenditures in fiscal 2012. The village closed the fiscal year with a General Fund balance of $16.4 million or 46.0% of General Fund revenues, which exceeded the village's fund balance policy of maintaining 40% of revenues annually.

For the current fiscal year, the village has budgeted for a slight operating surplus, but following strong first quarter results the village is on track for an operating surplus of $465,000. The variance is driven by continued sales tax growth, which is currently $200,000 or 1.5% ahead of budgeted projections. 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. Sales taxes are the village's largest operating revenue source, reaching 33.9% of total General Fund revenues in fiscal 2012. The expected return to balanced operations in the General Fund for the current fiscal year, combined with the significant revenue raising flexibility afforded to the village and the continued growth in sales tax revenues, will likely provide significant financial stability for the village over the near to medium term.

MANAGEABLE DEBT PROFILE WITH LIMITED FUTURE 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 2.9% of full valuation, with direct debt similarly favorable at 0.8%. The rate of principal amortization is average with 62.0% 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

2011 full valuation: $7.8 billion

Full valuation per capita: $234,685

Overall debt burden (direct): 2.9% (0.8%)

Payout of principal (10 years): 62.0%

Fiscal 2012 General Fund balance: $16.7 million (46.0% of General Fund revenues)

2006 - 2010 per capita income as a % of nation: 210.8%

2006 - 2010 median family income as a % of nation: 206.5%

Post-sale GOULT debt outstanding: $74.7 million, including current offering

RATING METHODOLOGY

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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