

MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Northbrook, IL's \$8.8M GO Bonds, Ser. 2013A and \$6.2M GO Library Bonds, Ser. 2013B

Global Credit Research - 12 Jul 2013

Maintains Aaa on \$86.3M of rated debt including current offering

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

Moody's Rating

ISSUE	RATING
General Obligation Bonds Series 2013A	Aaa
Sale Amount	\$8,820,000
Expected Sale Date	07/12/13
Rating Description	General Obligation

General Obligation Library Bonds, Series 2013B	Aaa
Sale Amount	\$6,195,000
Expected Sale Date	07/12/13
Rating Description	General Obligation

Moody's Outlook

Opinion

NEW YORK, July 12, 2013 --Moody's Investors Service has assigned a Aaa rating to the Village of Northbrook's (IL) \$8.8 million General Obligation Bonds, Series 2013A and \$6.2 million General Obligation Library Bonds, Series 2013B. Concurrently, Moody's maintains the outstanding Aaa rating on the village's previously issued debt. Post-sale the village will have \$86.3 million in outstanding general obligation debt.

SUMMARY RATINGS RATIONALE

Both series of bonds are secured by the village's general obligation unlimited tax pledge, which benefit from a dedicated property tax levy that is unlimited as to rate or amount. The Series 2013A bonds will be used primarily to finance storm water capital improvements, street maintenance and water main replacement, along with additional capital needs. The Series 2013B bonds will pay for expansion and remodeling of the village's library facilities. The Aaa rating reflects the village's large tax base with above average socioeconomic indicators; strong financial position and balanced operations with significant revenue raising flexibility; and a manageable debt profile.

STRENGTHS

-Wealthy demographic profile and tax base located in the Chicago (GO rated Aa3/ratings under review for downgrade) 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
- Higher than average pension liabilities based upon Moody's adjusted net pension liability calculation

DETAILED CREDIT DISCUSSION

SIZEABLE AND DIVERSE TAX BASE; AFFLUENT RESIDENT POPULATION

The village's mature tax base is expected 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), 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. Another property, located at Dundee and Skokie Blvd., is under agreement to develop a new mixed use, high end rental property project that would likely include a new grocery store as an anchor tenant. Further development is anticipated as two senior living facilities are expected to open and a big box retailer is in discussions to open on the old Com Ed property in the village. Additional development is also expected downtown with the construction of a mixed use development near the village's Metra station.

The village's taxpayer concentration is moderate, with top 10 taxpayers representing 15.6% of fiscal 2012 valuation. The top taxpayer, at 5.3% of valuation, is a shopping center which maintains stable occupancy. 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 6.6% as of April 2013 was below that of the State of Illinois (8.7%) and the U.S. (7.1%) 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 drew down its General Fund reserves due to negative budget variances and planned draws for capital expenditures. In fiscal 2012, the village budgeted for a \$1.1 million operating deficit primarily driven by \$400,000 in additional salary expenditures following the settlement of four outstanding union contracts. Favorably, the actual operating deficit of \$752,000 was more modest than budgeted. The difference was driven by a \$428,000 gain in sales tax revenues and positive variances for key village expenditures, including snow removal costs which fell short of budget due to the milder than expected winter. The village closed fiscal 2012 with a General Fund balance of \$16.4 million or a healthy 46.0% of revenues. For fiscal 2013, the village budgeted for a slight operating surplus of \$32,000 in the General Fund, but unaudited estimates reflect a \$1.4 million operating surplus, which would bring the fiscal 2013 General Fund balance to \$18 million, or a similarly healthy 47.1% of General Fund revenues. The variance is largely due to greater than expected sales tax, state income tax, and building permit revenues, but also reflects reductions in personnel expenditures due to vacant positions and reductions in overtime. The village is projecting General Fund operating surpluses for both fiscal 2014 (\$450,000) and fiscal 2015 (\$400,000), based upon reasonable expectations of continued strong sales tax revenue and new revenues from a recent telecom tax increase and storm water fee increase. The village plans to maintain their General Fund reserve levels above their policy of 40% of revenues, which we expect the village to achieve for the next several years, given past performance, reasonable budgets and projections, and economic recovery in the region.

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 return to balanced operations in the General Fund for the 2013 fiscal year and projected surpluses for fiscal years 2014 and 2015, 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 3.2% of estimated full valuation, with direct debt at a more favorable 1.0%. The rate of principal amortization is slightly slower than average with 55.3% of

obligations retired within 10 years. All of the village's debt is fixed rate, and the village is not a party to any interest rate swap agreements.

Northbrook has an above average employee pension burden, based on unfunded liabilities for its participation in one multiple-employer plan administered by the state and two single-employer plans which it administers. Reported unfunded pension liabilities include an estimated \$13.0 million for Northbrook's portion of the statewide Illinois Municipal Retirement Fund (IMRF), a reported \$11.8 million for the Northbrook Firefighters Pension Plan, and a reported \$15.3 million for the Northbrook Police Pension Plan as of April 30, 2012. The village has not consistently made its full actuarial required contributions to these pension plans. In 2012, it contributed 98.2%, 82.9%, and 96.6% of actuarial required contributions to IMRF, the Northbrook Firefighters Pension Plan, and the Northbrook Police Pension Fund, respectively, for a total of \$4.0 million, or 9.6% of operating expenditures. The village's contributions represent 100% of the annual required contribution as calculated under current state statutes; however, this falls short of actuarial requirements.

Moody's adjusted net pension liability (ANPL) for the village, under our methodology for adjusting reported pension data, is \$87.3 million, or 2.25 times operating fund revenues, compared to just below 1 times on average in the sector. The ANPL for the village's share of IMRF is \$24.2 million; the ANPL for the Northbrook Firefighters Pension Plan is \$29.4 million; and the ANPL for the Northbrook Police Pension Plan is \$33.7 million. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace Northbrook's reported liability information, but to improve comparability with other rated entities. We determined Northbrook's share of liability for state administered IMRF plan in proportion to its contributions to the plan.

What could change the rating - DOWN

- Significant weakening of tax base valuation and/or declines in economically sensitive revenues
- Substantial deterioration of reserve levels due to continued planned or unplanned operating deficits
- Continued growth in the unfunded actuarial accrued liability of the village's pension plans

KEY STATISTICS:

2010 Population: 33,170 (0.8% decrease from 2000)

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

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

2012 Estimated full valuation: \$7.2 billion (3.5% average annual increase since 2008)

Estimated full valuation per capita: \$218,310

Overall debt burden as a % of estimated full value (direct): 3.2% (1.0%)

Payout of principal (10 years): 55.3%

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

Moody's ANPL (2011): \$87.3 million (2.25x FY11 operating revenues)

Post-sale GOULT debt outstanding: \$86.3 million, including current offering

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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