

MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Northbrook, IL's \$26.3M GO Bonds, Ser. 2014A

Global Credit Research - 03 Oct 2014

Aaa applies to \$85.4M of post-sale GO debt

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

Moody's Rating	ISSUE	RATING
	General Obligation Bonds, Series 2014A	Aaa
Sale Amount		\$26,320,000
Expected Sale Date		10/14/14
Rating Description		General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, October 03, 2014 --Moody's Investors Service has assigned a Aaa rating to the Village of Northbrook's (IL) \$26.3 million General Obligation Bonds, Series 2014A. Concurrently, Moody's affirms the Aaa rating on the village's outstanding general obligation unlimited tax (GOULT) debt. The village has \$85.4 million of total GOULT debt, including the current offering. Debt service on the current offering is secured by the village's GOULT pledge, which is unlimited as to rate and amount. An estimated \$7.2 million of the Series 2014A bonds will finance various capital improvements while the remaining proceeds will be used to refund certain outstanding maturities of the village's General Obligation Bonds Series 2007 and Series 2008 for net present value savings.

SUMMARY RATING RATIONALE

The Aaa rating reflects Northbrook's integral role in the Chicago (GO rated Baa1/negative) regional economy; substantial tax base supported by a diverse commercial sector and an affluent residential base; well-managed financial operations; considerable budgetary flexibility provided by the village's home rule status; manageable debt levels and elevated unfunded pension liabilities.

STRENGTHS

- Affluent 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
- Elevated pension liabilities based upon Moody's Adjusted Net Pension Liability (ANPL) 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 (A1 negative), 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 substantial retail sector. Commercial and residential development has remained strong for the village despite the recent economic downturn. Construction is currently underway on a sizeable mixed use development located on the corner of Dundee Road and Skokie Boulevard. The development will consist of a 100,000 square foot shopping center anchored by a Mariano's grocery store and a 347-unit luxury apartment building. Construction has also begun on a 52,000 square foot Meadow Park Office development. The development will be occupied by Lurie's Children Hospital and Bright Horizon, a daycare services provider. Residential development has kept pace with commercial activity, as numerous single-family, multi-family and senior housing projects are also currently underway.

The village's taxpayer concentration is moderate, with the top 10 taxpayers representing 13% of fiscal 2013 valuation. The top taxpayer, at 5.0% of valuation, is the Northbrook Court shopping center which maintains stable occupancy. Resident income indices far outpace state and national norms, with median family incomes equivalent to 209% of national figures, according to 2008-2012 estimates provided by the American Community Survey. The village's unemployment rate of 5.0% as of July 2014, was below that of the State of Illinois (7.0%) and the U.S. (6.5%) for the same time period and reflects the vast pool of employment opportunities for village residents.

STRONG FINANCIAL POSITION; 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 2013, the village reversed the trend and posted a \$1.4 million General Fund surplus due to increased sales tax, state income tax and building permit revenues. The surplus was also driven by reductions in personnel expenditures. The recent audited surplus increased available General Fund reserves to \$18.0 million, or a robust 47% of General Fund revenues. Unaudited results for fiscal 2014 reflect another operating surplus of \$2.4 million, which was both expenditure and revenue driven. General Fund revenues were \$1.7 million more than budget and mainly reflect higher than anticipated building permit and telecommunications tax revenues. Notably, the village increased its telecommunications tax to 6% from 1% on January 1, 2013. Expenditures ended the year \$1.8 million under budget due to lower personnel costs from temporary vacancies and administrative reorganization, as well as the timing of planned capital purchases. If the unaudited surplus is fully realized, total General Fund reserves would increase to \$20.7 million and a very strong 50% of General Fund revenues. The village has conservatively budgeted for a \$286,000 surplus in fiscal 2015; however, management routinely outperforms budgeted expectations. The village's General Fund balance policy requires the village to maintain reserves equal to 40% of General Fund revenues. Moody's believes the financial flexibility afforded by the village's home-rule status and continued prudent financial management will allow the village to maintain reserve levels in compliance with its reserve policy over the near to medium term.

As a home rule municipality, the village maintains additional financial flexibility and is able to adjust a variety of tax rates, including sales tax, telecommunications tax and property tax, as needed to increase revenues. Sales and property taxes are the village's largest operating revenue sources, reaching 32% and 20% of total General Fund revenues in fiscal 2013, respectively. Following three consecutive years of sales tax revenue growth, the village saw a slight reduction in receipts, as fiscal 2014 collections were 3% less than the prior year. Favorably, year-to-date results for fiscal 2015 are tracking near budgeted expectations. The village's home rule status has allowed management to increase rates and offset ongoing tax base depreciation.

The village's major proprietary funds are also healthy, including the Water, Sanitary Sewer, Senior Housing and Stormwater Utility Funds. Notably, the village's Senior Housing Fund accounts for all operations of Crestwood Place, a senior housing apartment complex owned by the village; however, day to day operations are handled by an independent management company. In fiscal 2013, the fund recorded a modest operating surplus of \$18,000 and maintains cash reserves of \$1.1 million.

MANAGEABLE DEBT PROFILE WITH LIMITED FUTURE BORROWING PLANS

The village's debt profile will likely remain favorable as current debt levels are modest and future debt plans are

limited. The village's overall debt burden remains moderate at 3.8% of estimated full valuation, with direct debt at a more favorable 1.3%. The rate of principal amortization is slightly slower than average with 58% of obligations retired within 10 years. Debt service accounted for manageable 10.5% of total operating expenditures in fiscal 2013. All of the village's debt is fixed rate, and the village is not a party to any interest rate swap agreements.

ELEVATED BUT MANAGEABLE PENSION LIABILITIES

Northbrook has an above average employee pension burden, based on unfunded liabilities for its participation in two single-employer plans and one multi-employer agent plan. Reported unfunded pension liabilities consist of \$8.8 million for the single-employer Northbrook Firefighters Pension Plan as of December 31, 2012, \$15.1 million for the single-employer Northbrook Police Pension Plan as of December 31, 2012, and \$10.9 million for Northbrook's portion of the Illinois Municipal Retirement Fund (IMRF) as of December 31, 2013. Together, these reported liabilities amount to \$34.8 million. The village's contributions represent 100% of the annual required contribution as calculated under current state statutes.

The village's fiscal 2013 adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension information, was \$116 million. In fiscal 2013, the village's ANPL represented 2.71 times operating revenues and 1.80% of full valuation. 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.

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 sustained planned or unplanned operating deficits
- Growth in the reported unfunded actuarial accrued liability of the village's pension plans

KEY STATISTICS

Estimated full valuation: \$6.4 billion

Estimated full valuation per capita: \$194,057

Estimated median family income as % of the US: 209%

Available fund balance / operating revenue (fiscal 2013): 42.1%

5-year change in available fund balance / operating revenue: -0.1%

Net cash balance / operating revenue (fiscal 2013): 41.9%

5-year change in net cash balance / operating revenue: 0.9%

Institutional framework score: Aa

5-year average of operating revenue / operating expenditures: 0.98x

Net direct debt burden: 1.3% of full valuation; 1.99x operating revenue

3-year average Moody's ANPL: 1.56% of full valuation; 2.34x operating revenue

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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