

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Northbrook, IL's \$13.0M GO Bonds, Ser. 2015B

Global Credit Research - 13 Oct 2015

Maintains Aaa on \$97.5M 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 2015B | Aaa |
| Sale Amount | \$12,965,000 |
| Expected Sale Date | 11/10/15 |
| Rating Description | General Obligation |

Moody's Outlook NOO

NEW YORK, October 13, 2015 --Moody's Investors Service has assigned a Aaa rating to the Village of Northbrook IL's \$13.0 million General Obligation Bonds, Series 2015B. Concurrently, Moody's maintains the Aaa rating on the village's outstanding general obligation unlimited tax (GOULT) debt, of which \$97.5 million will be outstanding post-sale.

SUMMARY RATING RATIONALE

The Aaa rating reflects Northbrook's essential role in the Chicago (Ba1 negative) regional economy; large tax base supported by a diverse commercial sector and an affluent residential base; well-managed financial operations; ample budgetary flexibility derived from the village's home rule status; manageable debt level and above average unfunded pension liabilities.

OUTLOOK

Outlooks are generally not assigned to local governments with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO DOWN

- Significant weakening of the tax base
- Substantial deterioration of reserve levels
- Growth in 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

- Above average pension liabilities based upon Moody's Adjusted Net Pension Liability (ANPL) calculation

RECENT DEVELOPMENTS

Since our last report published on January 5, 2015, no new audited financial statements have become available; however, draft financial statements for fiscal 2015 reflect an increase in General Fund reserves of \$2.9 million. Additionally, after four consecutive years of valuation decline, equalized assessed value (EAV) grew by 1.8% in 2014 due to ongoing development and strengthening of the existing housing stock. The balance of the report is largely unchanged.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE AND AFFLUENT TAX BASE WITH RESUMED GROWTH IN VALUATIONS

Northbrook's tax base is expected to remain stable due to its location within the Chicago metropolitan area and continued residential and commercial development. Northbrook is located in suburban Cook County (A2 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 retail, anchors a substantial retail sector. In assessment year 2014, a trend of ongoing tax base depreciation reversed as equalized assessed valuation increased 1.8%. Recent tax base growth is attributable to ongoing development activity and strengthening of the village's existing housing stock. In fiscal 2015, residential and commercial building permit activity increased 19% and 33%, respectively, over fiscal 2014 figures.

The village's taxpayer concentration is moderate, with the ten largest taxpayers representing 13% 2014 valuations. 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 4.5% as of July 2015, was below that of the State of Illinois (5.9%) and the U.S. (5.6%) for the same time period and reflects the vast pool of employment opportunities for village residents.

FINANCIAL OPERATIONS AND RESERVES: STRONG FINANCIAL PROFILE BENEFITS FROM SIGNIFICANT REVENUE RAISING FLEXIBILITY

The village's financial profile is expected to remain sound given its strong reserve position 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. The village reversed the trend and posted General Fund surpluses of \$1.4 million and \$2.4 million in fiscal years 2013 and 2014, respectively. The recent surpluses were a result of strong performance of various revenue streams including sales tax and telecommunications tax revenues, as well as continued expenditure control. At the close of fiscal 2014, the village's General Fund reserves totaled \$20.7 million and a healthy 50% of revenues. While audited results are not yet available for fiscal 2015, draft results reflect a \$2.9 million General Fund surplus. The unaudited surplus was driven by continued growth of building permit revenues and personnel expenditures coming in below budget due to temporary vacancies. Halfway through fiscal 2016, the village anticipates closing the year with a fourth consecutive General Fund surplus. The village's General Fund balance policy calls for the maintenance of reserves equal to 40% of General Fund revenues.

We believe the financial flexibility afforded by the village's home-rule status is a clear credit strength. As a home rule municipality, the village maintains additional financial flexibility and is able to adjust a variety of tax rates, including sales taxes and property taxes as needed. Property taxes and sales taxes are the village's largest operating revenue sources, reaching 26% and 25% of total operating fund (combined General, Debt Service, and Pension Contribution funds) revenues in fiscal 2014, 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 sales tax receipts increased 2.4% in 2015. After three months of collections in fiscal 2016, sales tax receipts are projected to be 0.5% lower than budget, but 3.2% more than 2015 receipts.

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, operations are handled by an independent management company. In fiscal 2014, the fund recorded a modest operating surplus of \$26,000 and maintains cash reserves of \$1.2 million.

Liquidity

Net cash across village operating funds totaled \$22.4 million and a sound 47.5% of operating fund revenues in fiscal 2014. Operating fund liquidity is expected to remain stable over the near-term.

DEBT AND OTHER LIABILITIES: DEBT AND PENSION LIABILITIES EXPECTED TO REMAIN MANAGEABLE

The village's debt profile will likely remain manageable as current debt levels are moderate and future debt plans are limited. The village's overall debt burden is average at 3.8% of estimated full valuation, with direct debt at a more favorable 1.5%. Favorably, a portion of the village's outstanding debt is expected to be repaid with enterprise revenues. The rate of principal amortization is slightly slower than average with 59% of obligations retired within 10 years. Debt service accounted for manageable 10.2% of total operating expenditures in fiscal 2014. Management utilizes a five-year capital improvement plan to assess future bonding needs. While these figures are subject to change, the capital plan calls for a manageable \$44.6 million in additional bonding over the next five years.

Debt Structure

All of the village's debt is fixed rate and amortizes over the long-term.

Debt-Related Derivatives

The village has no derivative exposure.

Pensions and OPEB

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 \$16.3 million for the single-employer Northbrook Firefighters Pension Plan as of April 30, 2013, \$19.4 million for the single-employer Northbrook Police Pension Plan as of April 30, 2013, 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 \$46.7 million. The village's contributions represent 100% of the contribution required under current state statutes. In fiscal 2014, the village's contribution exceeded the GAAP basis annual required contribution.

The village's fiscal 2014 adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension information, was \$138 million. The village's three year average ANPL represented an above average 2.4 times operating revenues and 1.8% 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.

MANAGEMENT AND GOVERNANCE: STRONG REVENUE RAISING FLEXIBILITY AND PRUDENT MANAGEMENT

Illinois villages have an institutional framework score of 'A' or moderate. Villages are dependent on property and sales taxes, with largely predictable expenditures. Enterprise risk varies across the sector, with some villages exposed to contingent liabilities associated with arenas and convention centers, for example. Pension liabilities range from significant to manageable, with the majority of Illinois villages meeting annual ARC payments.

The institutional framework score for Illinois villages does not factor in entities with home rule designation, such as Northbrook. As a home rule unit of government, the village benefits from significant revenue raising flexibility. Management adheres to sound reserve policies and regularly outperforms budgeted expectations.

KEY STATISTICS

2014 Full Value: \$6.6 billion

Full Value Per Capita: \$197,730

Median Family Income as % of US: 209%

Fund Balance as % of Revenues, Fiscal 2014: 39.1%

5-Year Dollar Change in Fund Balance as % of Revenues: 0.0%

Cash Balance as % of Revenues, Fiscal 2014: 47.5%

5-Year Dollar Change in Cash Balance as % of Revenues: -1.1%

Institutional Framework: A

5-Year Average Operating Revenues / Operating Expenditures: 0.98x

Net Direct Debt / Estimated Full Value: 1.5%

Net Direct Debt / Operating Revenues: 2.0x

3-Year Average ANPL as % of Estimated Full Value: 1.8%

3-Year Average ANPL / Operating Revenues: 2.4x

OBLIGOR PROFILE

The Village of Northbrook is located approximately 25 miles north of downtown Chicago in Cook County. Covering an area of approximately 13 square miles, the village provides a variety of services for 33,170 residents.

LEGAL SECURITY

All of the village's GOULT debt, including the current issuance, is secured by a dedicated property tax levy unlimited as to rate and amount.

USE OF PROCEEDS

The bonds will be used to fund various capital improvement projects including water, storm water, and sewer system improvements. Portions of the bonds will also be used for street maintenance, municipal facility improvements and equipment purchases.

PRINCIPAL METHODOLOGY

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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