STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Northbrook, Illinois; General Obligation

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Summary:

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Credit Profile		
US$26.32 mil GO Bnds ser 2014A due 12/01/2028		
Long Term Rating	AAA/Stable	New
Northbrook Vill taxable GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Northbrook Vill GO bnds		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Northbrook, Ill.'s series 2014A general obligation (GO) bonds. At the same time, we affirmed our 'AAA' long-term rating on the village's previously issued GO debt. The outlook is stable.

The village's unlimited-tax GO pledge secures the series 2014A bonds. The village will use the bond proceeds for capital improvements and to refund certain maturities of its series 2007 and 2008 GO bonds for interest cost savings.

The rating reflects our assessment of the following factors for the village:

- Very strong economy, which benefits from participation in the broad and diverse economy of the Chicago metropolitan statistical area (MSA);
- Very strong budgetary flexibility with available reserves at 51% of general fund expenditures, according to the draft 2014 audit and excluding restricted balances;
- Strong budgetary performance;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions with strong financial policies and practices; and
- Very weak debt and contingent liability position, including the village's large pension obligations.

Very strong economy

We consider Northbrook's economy very strong with access to the broad and diverse economy of the Chicago MSA. The village has projected per capita effective buying income of 218% of the U.S. level. Per capita market value for the village was $197,673 for fiscal 2015. Equalized assessed value (EAV) decreased at an average annual rate of 9.4% in fiscal years 2012 to 2015. However, management anticipates EAV increases because of new development and stabilized home prices.

Very strong budgetary flexibility

In our opinion, the village's budgetary flexibility remains very strong, with reserves exceeding 30% of expenditures for the past several years and no plans to significantly spend them down, which we see as a credit strength. The village anticipates that reserves will increase in fiscal 2015. In the draft fiscal 2014 audit, reserves totaled $19.7 million, or

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51% of expenditures. The village also has shown an ability and willingness to raise taxes by increasing its telecommunications tax from 1% to 6% in January 2013.

Strong budgetary performance

The village's budgetary performance has been strong overall, in our view, with surpluses of 4.5% for the general fund and 3.6% for total governmental funds in fiscal 2014, according to the draft audit. Our results include adjustments for capital expenses supported by bond proceeds. After similar adjustments for fiscal 2015 expenses, the village's budget shows a 0.8% general fund surplus. Management anticipates finishing the year ahead of budget because of expenditures savings.

Very strong liquidity

Supporting the village's finances is liquidity we consider very strong, with total government available cash at 79% of total governmental fund expenditures and 856% of total governmental fund debt service, according to the fiscal 2014 draft audit. We believe the village has strong access to external liquidity based on its frequent issuance of GO bonds.

Very strong management conditions

We view the village's management conditions as very strong, with strong financial policies and practices. The village uses historical trends and current information in the budgeting process. Management reports budget-to-actual results to the board monthly and investment results and holdings quarterly. The village budgets with the help of three-year financial projections and a five-year capital improvement plan, both of which are updated annually. The village also has a board-approved debt management policy and a fund balance policy to keep an unassigned fund balance equal to 40% of unrestricted revenue.

Very weak debt and contingent liability profile

In our opinion, the village's debt and contingent liability profile is very weak and includes large pension obligations. Total governmental fund debt service was 9% of total governmental fund expenditures in fiscal 2014, according to the draft audit, and net direct debt is 155% of total governmental fund revenue. The district's medium-term debt plans could increase the village's net direct debt to more than 180% of total governmental fund revenue, but management reports that the village is unlikely to issue as much debt as its capital improvement plan indicated.

In our view, the village has large pension obligations, but we note that the village contributed more than the required amount in the draft fiscal 2014 audit. The Illinois Municipal Retirement Fund (IMRF) administers the village's pension plan for regular employees. The village also maintains a single-employer defined benefit pension plan for its police force and another for its firefighters. The village allows retirees to buy health insurance at their own cost under its plan for employees, and so has only an implicit rate subsidy for other postemployment benefits (OPEB). The village's required pension contributions and pay-as-you-go OPEB expense totaled 10% of total governmental fund expenditures in fiscal 2014, according to the draft audit. The village's police pension plan was 68% funded, its IMRF plan was 77% funded, and its firefighters' pension plan was 72% funded.

Strong institutional framework

We consider the Institutional Framework score for Illinois home-rule villages as strong.

Outlook

The stable outlook reflects our view of the village's very strong economy, budgetary flexibility, and management conditions. We do not anticipate changing the rating in the next two years because we believe the village will maintain very strong reserves and continue to benefit from its participation in the broad and diverse economy of the Chicago MSA. However, if the village's budgetary performance weakens or the village fails to adequately manage its large pension obligations, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Illinois Local Governments

Ratings Detail (As Of October 3, 2014)		
Northbrook Vill GO		
Long Term Rating	AAA/Stable	Affirmed

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