STANDARD & POOR'S RATINGS SERVICES

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Summary:

Northbrook, Illinois; General Obligation

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Credit Profile		
US$12.8 mil taxable GO bnds ser 2012A due 12/01/2021		
Long Term Rating	AAA/Stable	New
US$7.63 mil GO bnds ser 2012B due 12/01/2027		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to the village of Northbrook, Ill.'s series 2012A taxable general obligation (GO) bonds and series 2012B GO bonds. Standard & Poor's also affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the village's previously issued GO debt. The outlook is stable.

The rating reflects our view of the village's:

- Participation in the Chicago metropolitan area's deep and diverse economy,
- Very strong income levels and extremely strong market value per capita,
- Very strong reserves,
- Strong financial management under our financial management assessment (FMA) methodology, and
- Moderate overall debt burden as a percentage of market value.

Revenue from the village's unlimited-tax GO pledge secures the series 2012A and 2012B bonds. Management will use the bond proceeds to refund certain maturities of its series 2004, 2005, and 2006 bonds for interest cost savings, and to pay for storm water, street, ambulance replacement, and Vactor replacement projects.

Northbrook (population 33,170) is located in northern Cook County, about 20 miles north of downtown Chicago and 12 miles north of O'Hare International Airport. Residents, many of whom are professional and managerial workers, have access to a wide variety of jobs in the village as well as in neighboring communities in Cook and Lake counties and downtown Chicago, which is accessible by Metra commuter train.

Income and wealth levels are very high. Median household effective buying income is, in our view, very strong at 173% of the national level. Because of the recession, the tax base in terms of equalized assessed valuation (AV) slipped 7.8% in 2010 and 10% in 2011 to $2.6 billion. Estimated market value stands at $7.8 billion, or an extremely strong $234,450 per capita. Commercial and industrial properties, including a number of corporate office buildings and a major shopping mall, make up 34% of equalized AV. The tax base is very diverse, with the 10 leading taxpayers making up only 12% of equalized AV.

As a home-rule entity with broad taxing powers, the village has a great deal of revenue flexibility. Northbrook instituted a 0.5% home-rule sales tax in 2002 and raised the rate to 0.75% effective Jan. 1, 2007. The village dedicates the 0.25% that it began collecting in 2007 to infrastructure projects and related debt service. The village relies mainly on sales and property taxes, and does not receive federal revenue for general fund operations. Sales taxes, which provided 47% of general fund revenue in fiscal 2012 (ended April 30), increased 6.4% in fiscal 2012 and came in higher than budgeted as local retailers continued to recover from the recession. Property taxes accounted for 28% of general fund revenue in fiscal 2012.

The village reported a $552,000 general fund shortfall for fiscal 2012, which reduced the unassigned general fund balance to $16.4 million, or 44% of expenditures, which we consider very strong. Management attributes the 2012 shortfall mainly to an extra $400,000 in salaries that were not part of the budget, which was constructed while negotiations were underway. We understand other factors in the result included $200,000 in capital expenses, higher-than-budgeted sales taxes, and a one-year decision to lower the general fund property tax levy.

For fiscal 2013, management anticipates a $466,000 general fund surplus partly because of another year of higher-than-budgeted sales taxes, which are up 4.5% so far compared with fiscal 2012. We understand that the village also is achieving personnel savings through attrition and keeping positions open, and that it has brought back up the general fund property tax levy. The village also is increasing its telecommunications tax to 6% from 1% in fiscal 2013 while eliminating its 911 surcharge, which management anticipates will lead to a net gain in revenue of $750,000 for fiscal 2013 and $2.2 million annually when the tax increase is in place for a full fiscal year. The village also is implementing a stormwater utility fee that will support stormwater projects as well as provide self-support for about $1.1 million in operating costs that previously had been accounted for in the general fund.

We consider Northbrook's financial management practices "strong" under our FMA methodology. This indicates our view that practices are strong, well embedded, and likely sustainable. 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 10-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 revenues.

In our opinion, the overall debt burden is moderate at 3.1% of market value and high at $7,292 per capita. The large amount of commercial properties in Northbrook and the residents' very strong income levels offset the high overall per capita debt figure, in our view.

The debt amortization schedule calls for the payment of 59% of GO debt within 10 years and 87% over 20. The village's $16.6 million series 2004 GO pension bonds, of which $8.8 million constitutes a bullet maturing in 2034, negatively affects amortization. Northbrook plans to pay for the 2034 bullet in advance by taking advantage of the liberal call provisions in the pension bond structure.

The village's capital improvement plan called for $21 million in bonds in fiscal years 2013 and 2014, but management anticipates issuing significantly less than that amount. The village's debt plans also include the possibility of issuing $3 million to $5 million in GO bonds in calendar 2013 for an addition to the library's auditorium.

The Illinois Municipal Retirement Fund (IMRF) administers the village's pension plan for regular employees. The village paid a little less than 100% of the annual pension cost (APC) of its IMRF plan in fiscal years 2011 and 2012, when the state allowed a lower phase-in rate after market losses during the recession. The village also maintains a single-employer defined-benefit pension plan for its police force and another for its firefighters. We understand that the village budgets and levies the APC for both the police and firefighters plans, but that the amounts contributed are sometimes below and sometimes above APC levels because of timing differences resulting from the levy cycle, according to management. The total unfunded actuarial accrued liability for all three pension systems reported in the fiscal 2012 comprehensive annual financial report was $40.8 million, or 0.5% of the village's estimated market value. 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.

Outlook

The stable outlook reflects our anticipation that we will not change the rating during our two-year timeframe as we believe that the village will report a return to balanced operations in the near future and maintain very strong reserves. The village's proximity to a wide variety of high-end employers locally and in downtown Chicago, and to O'Hare International Airport, supports the outlook.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Ratings Detail (As Of November 2, 2012)		
Northbrook Vill GO		
Long Term Rating	AAA/Stable	Affirmed

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