

RatingsDirect®

Summary:

Northbrook, Illinois; General Obligation

Primary Credit Analyst:

Jennifer Boyd, Chicago (1) 312-233-7040; jennifer_boyd@standardandpoors.com

Secondary Contact:

John A Kenward, Chicago (1) 312-233-7003; john_kenward@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Northbrook, Illinois; General Obligation

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

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. **S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION.** In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

McGRAW-HILL