

RatingsDirect®

Summary:

Northbrook Village, Illinois; General Obligation

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Credit Profile

US\$12.965 mil GO bnds ser 2015B due 12/01/2036

<i>Long Term Rating</i>	AAA/Stable	New
Northbrook Vill taxable GO bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Northbrook Vill GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Northbrook Vill GO bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to the village of Northbrook, Ill.'s series 2015B general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the village's existing GO debt. The outlook is stable.

The village's unlimited-tax GO pledge secures the series 2015B bonds. The village will use the bond proceeds to fund building improvements, improvements to its water, sanitary sewer, and stormwater systems, and street maintenance projects.

Northbrook's GO debt is eligible to be rated above the sovereign because we believe the village can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. Northbrook has pledged its ad-valorem unlimited tax GO to the debt, which is the sole source of security on the bonds; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the village. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Also, Northbrook has very strong financial flexibility, as demonstrated by its very strong budgetary flexibility and liquidity.

The 'AAA' rating reflects our assessment of the following factors, when taken as a whole:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 50% of operating expenditures;

- Very strong liquidity, with total government available cash of 74.9% of total governmental fund expenditures and 8.1x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges of 9.2% of expenditures and net direct debt that is 180.3% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) liability; and
- Strong institutional framework score.

Very strong economy

We consider Northbrook's economy very strong. The village, with an estimated population of 32,560, is located in Cook County in the Chicago-Naperville-Elgin, IL-IN-WI MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 176% of the national level and per capita market value of \$201,233. Overall, the village's market value grew by 1.8% during the past year to \$6.6 billion in fiscal 2015. In 2014, the county's unemployment rate was 7.4% . As of July 2015, the county's unemployment rate was 6.3%.

Management anticipates equalized assessed value (EAV) will continue to show gains, as it did in tax levy year 2014, because of new development underway.

Strong management

We view the village's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The FMA score was changed to "good" from "strong" reflecting a clarification of the village's long-term financial forecasting, which

consists of a two-year budget. The village has a formal fund balance policy of 40%, which provides a cushion against fluctuations in economically sensitive revenues, a debt policy, and an investment policy coupled with monthly financial reports. The village produces quarterly economic reports, monthly financial reports, and a rolling, five-year capital improvement plan (CIP) that is updated annually.

Strong budgetary performance

Northbrook's budgetary performance is strong in our opinion. The village had operating surpluses of 3.0% in the general fund and 3.6% across all governmental funds in fiscal 2014.

Our assessment accounts for the fact that we expect budgetary results will remain consistently strong from 2014 results in the near term. The village expects to report a \$2.9 million general fund surplus (7% of the budget) in 2015, and its 2016 general fund budget is breakeven. Positive revenue and expenditure budget variances to date in 2016 suggest that the village may report a better than budgeted result in the general fund. The total governmental funds are largely represented by the general fund and also reflect capital improvement activities.

The village's largest source of tax revenue is from sales taxes, which accounted for 29% of total general fund revenues. Property taxes (18%) and telecommunications taxes (9%) were the next leading sources of tax revenue.

Very strong budgetary flexibility

Northbrook's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 50% of operating expenditures or \$19.7 million. We expect the available fund balance will remain above 30% of expenditures for fiscal 2015 and 2016, which we view as a positive credit factor.

The village anticipates that total general fund reserves will increase in fiscal 2015 to \$23.7 million, with \$22.1 million of this unreserved. For 2016, reserves are budgeted to remain fairly level.

Very strong liquidity

In our opinion, Northbrook's liquidity is very strong, with total government available cash of 74.9% of total governmental fund expenditures and 8.1x governmental debt service in 2014. In our view, the village has strong access to external liquidity if necessary.

We believe the village has strong access to external liquidity based on its roughly annual issuance of GO bonds.

Very weak debt and contingent liability profile

In our view, Northbrook's debt and contingent liability profile is very weak. Total governmental fund debt service is 9.2% of total governmental fund expenditures, and net direct debt is 180.3% of total governmental fund revenue.

The village's capital improvement plan calls for roughly \$25.4 million of debt to be issued during the next two years (in fiscal years 2017 and 2018), which we do not view as being significant given the village's overall debt profile. The five-year CIP calls for a total of \$44.6 million in debt issuance between 2016 and 2020.

In our view, the village has large pension obligations, but we note that the village overall contributed more than the required amount in the fiscal 2014 audit for its police and fire pension plans, and officials continued with that strategy in 2015, and in budget year 2016. 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, so it has only an implicit rate subsidy for other postemployment benefits (OPEBs).

In our opinion, a credit weakness is Northbrook's large pension and OPEB liability. Northbrook's combined pension and OPEB contributions totaled 10.4% of total governmental fund expenditures in 2015. Of that amount, 9.9% represented contributions to pension obligations and 0.6% represented OPEB payments. The village made its full annual required pension contribution in 2015. The pension funded ratio is 75.2%.

As of April 30, 2014 actuarial valuations, the village's police pension plan was 69.4% funded and its firefighters' pension plan was 74% funded. The village's IMRF plan was 75% funded as of the Dec. 31, 2014 actuarial valuation.

Strong institutional framework

The institutional framework score for Illinois home-rule cities and villages is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion that it will likely not change the rating during the two-year

outlook period. We expect Northbrook to maintain its very strong liquidity and budgetary flexibility due to our expectation of stable financial performance and management continuing to keep balanced operations, supported by its strong management. This is exemplified by the village's two-year budget process and its maintenance of reserves in accordance with its 40% fund balance policy, which partly offsets volatility risk due to economic fluctuations related to the village's sales tax, the major tax revenue source. The outlook also reflects our opinion of the village's very strong economy, which benefits from its participation in the Chicago MSA, and strong management.

Downside scenario

We could lower the rating if budgetary performance were to weaken in a way that we believe compromises the village's financial flexibility or liquidity profile. We could also lower the rating if the village's debt and contingent liabilities were to worsen.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

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