

### Summary:

# Northbrook Village, Illinois; General Obligation

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Credit Profile		
US\$2.755 mil GO bnds ser 2011 due 12/01/2032		
<i>Long Term Rating</i>	AAA/Stable	New
Northbrook Vill GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' rating and stable outlook to the village of Northbrook, Ill.'s series 2011 general obligation (GO) bonds. Standard & Poor's also affirmed its 'AAA' rating on the village's outstanding GO debt.

The rating reflects Standard & Poor's view of the village's:

- Participation in the Chicago metropolitan area's deep and diverse economy,
- Very strong income level and extremely strong market value per capita,
- Strong financial operations with very strong reserves,
- Strong financial management, and
- Low overall debt burden as a percentage of market value.

We understand the village will use proceeds of the series 2011 bonds to finance stormwater and street improvements.

The village's unlimited-tax GO pledge secures the bonds.

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 via Metra commuter train.

Income and wealth levels are very high. Median household effective buying income is, in our view, very strong at 169% of the state and 173% of the national levels. Due to the recession, the tax base in terms of equalized assessed valuation (AV) slipped 7.8% from 2009 to 2010, to \$2.9 billion. Estimated market value currently stands at \$8.7 billion, or an extremely strong \$261,000 per capita. Commercial and industrial properties, including a number of corporate office buildings and a major shopping mall, make up 32% of equalized AV. The tax base is very diverse, with the 10 leading taxpayers making up only 13% of equalized AV.

As a home-rule entity, the village has a great deal of revenue flexibility due to its broad taxing powers. 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 property and sales taxes, and does not receive federal revenue for general fund operations. Sales taxes, which provide about 30% of general fund revenues, increased 4.7% to \$13.16 million in fiscal 2011 (April

30) from 2010, as local retailers recovered from the recession. Property taxes accounted for 22% of general fund revenues in 2011.

The village reported a \$693,000 general fund shortfall for fiscal 2011 after \$1.45 million of transfers to other funds, which reduced the general fund balance to \$17.3 million. Of that amount, \$17.1 million is unreserved, which is 47% of expenditures, a figure we consider very strong. Management reports that the 2011 shortfall was mainly due to the transfers, which included \$1.2 million to the water utility to delay a rate increase. Northbrook raised its water rates in May 2011.

It structured its 2012 budget with the use of \$465,000 of reserves; management now projects that the shortfall will narrow to \$245,000 by year-end due to stronger sales tax collections and some staff vacancies. Despite the planned use of reserves in 2012, management projects that the village will maintain its unreserved general fund balance at or above the 40% policy goal.

Northbrook's management practices are considered "strong" under Standard & Poor's Financial Management Assessment. This indicates 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 on a monthly and investments 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 unreserved fund balance equal to 40% of unrestricted revenues.

The overall net debt burden, including overlapping debt but excluding GO debt supported by water fund revenues, is low at 2.5% of market value. Concerns about the high per capita debt of \$6,640 are ameliorated by the large amount of commercial properties in Northbrook and by the residents' very strong income levels. Debt service carrying charges were a moderate 9% of total governmental funds expenditures in fiscal 2010.

The debt amortization schedule calls for the payment of 54% of GO debt over 10 years and 87% over 20. Amortization is negatively affected by the village's \$16.6 million series 2004 GO pension bonds, of which \$8.8 million constitutes a bullet maturing in 2034. Northbrook plans to pay for the 2034 bullet in advance by taking advantage of the liberal call provisions in the pension bond structure.

We understand that the village expects to issue a moderate amount of GO debt for capital improvements over the next few years.

The village's employees other than police and firefighters are covered by the Illinois Municipal Retirement Fund (IMRF), a multiple-employer, defined-benefit pension system. The village pays its full annual required contribution (ARC) to the IMRF each year. It also maintains a single-employer defined-benefit pension plan for its police force and another for its firefighters. The village budgets and levies the ARC for both the police and firefighters systems, but the amounts contributed in some years are below and above ARC levels due to 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 2011 comprehensive annual financial report was \$40.1 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 Standard & Poor's expectation that the rating will not change during a two-year timeframe as we believe that the village will take the steps necessary to 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

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