

# RatingsDirect®

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## Summary:

# Northbrook Village, Illinois; General Obligation

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## Summary:

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### Credit Profile

US\$16.995 mil GO bnds ser 2018A due 12/01/2037

*Long Term Rating* AAA/Stable New

US\$8.43 mil taxable GO bnds ser 2018B due 12/01/2037

*Long Term Rating* AAA/Stable New

Northbrook Vill taxable GO bnds

*Long Term Rating* AAA/Stable Affirmed

Northbrook Vill GO

*Long Term Rating* AAA/Stable Affirmed

Northbrook Vill GO bnds

*Long Term Rating* AAA/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Northbrook Village, Ill.'s series 2018A general obligation (GO) bonds and series 2018B taxable GO bonds. At the same time, S&P Global Ratings 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 2018A and 2018B bonds. The village will use the 2018A bond proceeds to fund stormwater projects, water main replacements, street improvements, and other capital improvements. It will use the series 2018B bonds to finance the costs of land acquisition.

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, 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 its very strong budgetary flexibility and liquidity demonstrate.

The 'AAA' rating reflects our assessment of the following factors:

- 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 methodology;

- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 54% of operating expenditures;
- Very strong liquidity, with total government available cash at 99.9% of total governmental fund expenditures and 9.2x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 10.9% of expenditures and net direct debt that is 234.8% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

### **Very strong economy**

We consider Northbrook's economy very strong. The village, with an estimated population of 32,610, is located in Cook County in the Chicago-Naperville-Elgin MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 202% of the national level and per capita market value of \$228,506. Overall, the village's market value grew by 19.6% over the past year to \$7.5 billion in fiscal year 2018. The county unemployment rate was 6.2% in 2016.

Northbrook is home to the 1 million square-foot Northbrook Court Mall, in addition to two other shopping centers that add an additional 752,000 square feet of retail space (1,000 employees). Other top employers include Underwriter's Laboratories (product testing; 2,000 employees), Crate & Barrel corporate headquarters (retail; 500), and Hilco Merchant Resources LLC (management consulting; 400). The most recent increase in the equalized assessed value (EAV) is due to a reassessment and the completion of the NorthShore 770, a mixed-use shopping and residential development. Management anticipates the EAV will continue increasing, as it did in tax levy year 2016, because of new development. Highlights include several new housing developments (126 single family homes and townhouses), a luxury used car dealership, and a children's hospital surgical suite.

### **Strong management**

We view the village's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them regularly.

Northbrook 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. The board receives monthly financial reports, a two-year budget document but formally adopts a one-year budget, and a formal five-year capital improvement plan (CIP) that it updates annually. Management also produces quarterly economic reports.

### **Strong budgetary performance**

Northbrook's budgetary performance is strong in our opinion. The village had operating surpluses of 2.7% of expenditures in the general fund and of 3.6% across all governmental funds in fiscal 2017. General fund operating results have been stable over the past three years, with a result of 2.1% in 2016 and 3.8% in 2015.

We adjusted Northbrook's general fund and total governmental fund expenditures to account for expenses that bond proceeds covered, as well as a note issued and subsequent write-off associated with a tax increment financing agreement with a developer.

Our assessment accounts for the fact that we expect budgetary results will remain consistently strong from 2017 results in the near term. The village expects to report balanced operations in the general fund in 2018 (although it will transfer out \$1.5 million to give taxpayer relief in another governmental 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 31% of total general fund revenues in fiscal 2017. Property taxes (19%) and state income taxes (7%) 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 2017 of 54% of operating expenditures, or \$22.1 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has been consistent overall, totaling 52% of expenditures in 2016 and 54% in 2015.

The village anticipates that total general fund reserves will likely remain at least level in fiscal years 2018 and in 2019 compared to 2017 audited levels, based on current budgetary performance. Reserve levels will continue in accordance to the formal fund balance policy of 40%.

### **Very strong liquidity**

In our opinion, Northbrook's liquidity is very strong, with total government available cash at 99.9% of total governmental fund expenditures and 9.2x governmental debt service in 2017. In our view, the village has strong access to external liquidity if necessary.

We adjusted Northbrook's cash, deducting \$13.3 million in restricted bond proceeds.

We believe the village has strong access to external liquidity based on its approximately 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 10.9% of total governmental fund expenditures, and net direct debt is 234.8% of total governmental fund revenue.

The village's capital improvement plan calls for about \$8 million of debt in fiscal 2020. We do not view this as being significant given Northbrook's overall debt profile.

In our opinion, a credit weakness is the village's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. Northbrook's combined required pension and actual OPEB contributions totaled 10.4% of total governmental fund expenditures in 2017. Of that amount, 9.8% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The village made 106% of its annual required pension contribution in 2017. The funded ratio of the largest pension plan is 50.0%.

Although pension contributions remain a long-term credit consideration, we believe the liability is manageable. Northbrook contributes to three defined benefit pension plans. The Illinois Municipal Retirement Fund (IMRF) is a defined benefit agent multiple-employer public employee retirement system. The police and fire pension plans are both single-employer pension plans.

The IMRF plan has a net liability of \$12.9 million and is 86.9% funded. The village's net pension liability as of April 30, 2017 for its police and firefighters plans was a combined \$88 million. The police plan maintained a funded level of 50.0%, utilizing the plan's fiduciary net position as a percentage of the total pension liability. The fire plan maintained a funded level of 53.0%, using the plan's fiduciary net position as a percentage of the total pension liability. The funding level decreased since the 2015 audit due to reduced return assumptions to 7% from 8%. In each year, Northbrook contributes 100% of the actuarially determined contribution.

Although, we do not anticipate any significant increases in contributions during the next several years that would cause greater budgetary pressure, we don't believe the village has a credible plan to address the severely low funding levels.

Northbrook allows retirees to buy health insurance at their own cost under its plan for employees, so it has only an implicit rate subsidy for OPEBs.

### **Strong institutional framework**

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

## **Outlook**

The stable outlook reflects our expectation that Northbrook will 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 partially 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 Northbrook's very strong economy, which benefits from its participation in the Chicago MSA, and strong management.

Although we don't expect it in the next two years, 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 Northbrook's fixed cost, including debt and pensions, were to increase faster than expenditures.

## **Related Research**

- 2017 Update Of Institutional Framework For U.S. Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found

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