

# RatingsDirect®

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## Summary:

# Northbrook Village, Illinois; General Obligation

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## Summary:

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### Credit Profile

US\$20.1 mil GO bnds ser 2016 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 Northbrook Village, Ill.'s series 2016 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 2016 bonds. The village will use the bond proceeds to fund stormwater projects, water main replacements, street improvements, and various capital improvements.

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 in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 54% of operating expenditures;
- Very strong liquidity, with total government available cash at 90.0% of total governmental fund expenditures and

9.6x governmental debt service, and access to external liquidity we consider strong;

- Very weak debt and contingent liability position, with debt service carrying charges at 9.4% of expenditures and net direct debt that is 210.0% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### **Very strong economy**

We consider Northbrook's economy very strong. The village, with an estimated population of 33,170, 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 180% of the national level and per capita market value of \$197,532. Overall, the village's market value grew by 1.8% over the past year to \$6.6 billion in levy year 2014. The county unemployment rate was 7.4% in 2014.

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. Management anticipates equalized assessed value (EAV) will continue to show gains, as it did in tax levy year 2014, because of new development underway. Highlights include NorthShore 770, a mixed-use shopping and residential development, which is nearly complete. Also underway is a 52,500 square-foot office development. Various proposals for townhouse and other developments are also going to the board for consideration.

### **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 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. 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 is updated annually. Management also produces quarterly economic reports and a rolling, five-year financial forecast.

### **Strong budgetary performance**

Northbrook's budgetary performance is strong in our opinion. The village had operating surpluses of 3.8% of expenditures in the general fund and of 4.6% across all governmental funds in fiscal 2015. General fund operating results of the village have been stable over the last three years, with a result of 3.0% in 2014 and a result of 3.8% in 2013.

We adjusted the village's general fund and total governmental fund expenditures to account for expenses that were covered by bond proceeds, as well as a transfer in from the stormwater proprietary fund to cover debt associated with stormwater projects.

Our assessment accounts for the fact that we expect budgetary results will remain consistently strong from 2015 results in the near term. The village expects to report a general fund surplus in 2016; its draft 2017 general fund budget is balanced, and includes a modest surplus. 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 in fiscal 2015. Property taxes (18%) and state income taxes (8%) 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 2015 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.

The village anticipates that total general fund reserves will likely remain at least level in fiscal 2016 and in 2017 compared to 2015 audited levels, based on current budgetary performance. It is possible that a portion of the reserve could be earmarked for capital projects in the future, but reserve levels will be maintained 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 90.0% of total governmental fund expenditures and 9.6x governmental debt service in 2015. In our view, the village has strong access to external liquidity, if necessary.

We adjusted the village's cash, deducting amounts the village indicates are restricted.

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 9.4% of total governmental fund expenditures, and net direct debt is 210.0% of total governmental fund revenue.

We adjusted the village's total governmental fund expenditures to account for expenses that were covered by bond proceeds, as well as a transfer in from the stormwater proprietary fund to cover debt associated with stormwater projects.

The village's capital improvement plan calls for roughly \$18 million of additional 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 \$37 million in additional debt issuance between 2017 and 2021.

In our opinion, a credit weakness is Northbrook's large pension and OPEB obligation. Northbrook's combined required pension and actual OPEB contributions totaled 10.9% of total governmental fund expenditures in 2015. Of that amount, 10.3% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The village made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 64.5%.

Although pension contributions remain a long-term credit consideration, we believe the liability is manageable. The village 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 an unfunded actuarial accrued liability of \$12.3 million and is 75.2% funded. Utilizing updated reporting standards in accordance with Governmental Accounting Standard Board (GASB) Statement No. 67 & 68, the village's net pension liability as of April 30, 2015 for its police and firefighters plans was a combined \$57 million. The police plan maintained a funded level of 59.6%, utilizing the plan's fiduciary net position as a percentage of the total pension liability. The fire plan maintained a funded level of 64.5%, utilizing the plan's fiduciary net position as a percentage of the total pension liability. In each year, the village contributes 100% of the amounts required under state statute. The village's actual contributions were close to, if not more than, the annual pension cost for IMRF and police; but slightly below for the firefighters in 2015. We do not anticipate any significant increases in contributions during the next several years that would cause greater budgetary pressure.

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).

### **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
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: Illinois Local Governments

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.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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