

## Research Update:

# Northbrook Village, IL 2025 GO Bonds Assigned 'AAA' Rating

April 22, 2025

## Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the Village of Northbrook's approximately \$24.1 million series 2025 general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the village's existing GO debt.
- The rating reflects the application of our "Methodology for Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- The outlook is stable.

## Rationale

### Security

The series 2025 bonds and the village's existing GO debt are secured by its unlimited-tax GO pledge. Proceeds from the series 2025 bonds will be used for the purchase of a new fire engine and ambulance fuel island, for fire station and fleet garage projects, and for water meter replacement and water main extension projects.

### Credit highlights

The 'AAA' rating reflects the strengths of Northbrook's local economy, highlighted by its robust local incomes and its healthy reserves. Despite the village's large unfunded pension obligations associated with its public safety pension plans and its high debt levels, we expect it to maintain stable operations, reflecting management's skill in financial stewardship. Northbrook's economy is unique in that it has access to the large Chicago metropolitan statistical area (MSA), a significant retail base, a very desirable and growing residential sector, and many small-to-large businesses. In addition, it is home to corporate headquarters of major international businesses, including Crate and Barrel and UL. Both of these entities are expected to remain in the village for the foreseeable future, with Crate and Barrel having signed a 99 year-lease on its current property and UL undergoing a \$40 million renovation to its campus.

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Northbrook maintains a strong balance sheet, with robust reserves of approximately 51% of revenue in audited fiscal 2024 (fiscal year-end April 30), highlighting management's adherence to a general fund balance policy of 40% of revenue. In recent years, the village has exceeded its policy, and as a result decided to transfer surplus funds to its capital fund and provide supplemental funding to its public safety pension plans. After these transfers, it posted an 8.7% deficit or \$4.4 million in fiscal 2024. For unaudited fiscal 2025 and its fiscal 2026 budget, the village forecasts similar planned deficits for capital projects and additional pension funding. We note that revenue gains have been strong in recent fiscal years, with sales tax revenue increasing by 8% year over year in fiscal 2024 from the previous year, though current economic uncertainty may weaken these metrics. The village has detailed and robust management practices and policies, which include strong budget practices with the use of outside economic sources, consultation with the Illinois Municipal League, and regular monthly budget-to-actual financial reporting to its board. It maintains a detailed and annually updated five-year capital improvement plan (CIP) that is shared with its board and adheres to reserve, investment management, and debt practices and policies, with regular quarterly investment updates shared with the board.

The village's debt profile is characterized by high annual costs and liabilities and elevated net direct debt and net pension liabilities per capita. It expects to issue approximately \$33 million in additional new-money debt for capital improvement projects during the next few years, which we do not anticipate will materially weaken its debt profile. The village is a party to a direct-purchase obligation with a bank but the instrument securing the obligation does not contain any adverse acceleration provisions that could weaken its liquidity. Its police and firefighters' pension plans were, respectively, 59.1% and 56.9% funded at the end of fiscal 2024, with collective liabilities over \$100 million, though the village plans to reach 100% funding on these plans by 2040, a rate faster than is statutorily required. It has been increasing its funding to its police and firefighters' plans with annual distributions out of general fund surpluses beyond its required annual contributions, a practice that it expects to continue.

The rating further reflects our opinion of Northbrook's:

- Per capita gross county product and per capita county personal income at 124.8% and 111.5%, respectively, with local incomes well above national medians at 171.7% of the U.S. Northbrook benefits from its access to the Chicago MSA, strong property tax base, and significant retail and commercial presence.
- Stable financial performance, with planned transfers for capital improvement and supplemental pension funding leading to general fund deficits, with continued growth in sales tax revenue, a major revenue source for the village.
- Healthy reserves, with an available fund balance of approximately 51% of general fund revenue in audited fiscal 2024. The village adheres to a fund balance policy of 40% general fund revenue, and we anticipate reductions in its available fund balance during the next few years as it seeks to better align its reserves to its policy.
- Weak debt and pension profile, in our view, with elevated annual costs for debt and pension liabilities. While the village has additional debt plans for capital improvements, we do not anticipate this will materially weaken its debt profile. Its public safety pensions are underfunded but it is taking steps to improve funding levels in line with its goal of 100% funding by 2040 by making supplemental payments out of surplus funds.
- Strong management practices, with detailed annual budget practices, supplemented by regular monthly budget-to-actual reporting to its board. The village maintains a five-year

## **Northbrook Village, IL 2025 GO Bonds Assigned 'AAA' Rating**

long-term CIP that is updated annually and it adheres to reserve, investment management, and debt policies and practices, with quarterly updates to its board regarding financial performance.

- For more information on our institutional framework assessment for Illinois municipalities, see "Institutional Framework Assessment: Illinois Local Governments," published Sept. 10, 2024.

### **Environmental, social, and governance**

The village proactively manages its cybersecurity risk with training exercises, 24/7 cyber risk monitoring, and an IT department headed by a chief information officer. In addition, unique among municipalities its size, it has developed a climate action plan. We view these efforts as positive governance and environmental factors. We also view Northbrook's social governance factors as being neutral.

### **Rating above the sovereign**

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" (published Nov. 19, 2013), U.S. local governments are considered moderately sensitive to country risk. Northbrook has pledged its GO ad valorem unlimited tax revenue as 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 and liquidity demonstrate.

## **Outlook**

The stable outlook reflects our view of the village's trend of fiscal stability, a strong local economy, and healthy reserves. We do not expect to change the rating within the two-year outlook horizon.

### **Downside scenario**

Should the village's debt and pension fixed costs increase materially during the next few years, leading to a weakening in operational performance, a lower rating is possible. In addition, should weaker revenue trends prevent the village from making supplementary contributions to its public safety pension plans, the rating could be lowered.

### **Village of Northbrook, Illinois--Credit summary**

<b>Institutional framework (IF)</b>	<b>2</b>
Individual credit profile (ICP)	2.18
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.65

## Village of Northbrook, Illinois--Credit summary

Institutional framework (IF)	2
Debt and liabilities	5.25

## Village of Northbrook, Illinois--Key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita % of U.S.	125	--	125	125
County PCPI % of U.S.	112	--	112	111
Market value (\$000s)	9,619,020	9,245,757	7,958,454	8,579,919
Market value per capita (\$)	287,075	275,935	237,516	266,325
Top 10 taxpayers % of taxable value	9.5	9.7	10.6	10.2
County unemployment rate (%)	5.4	5.4	4.5	4.9
Local median household EBI % of U.S.	172	--	172	174
Local per capita EBI % of U.S.	189	--	189	192
Local population	33,507	--	33,507	32,216
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	51,419	53,744	51,165
Operating fund expenditures (\$000s)	--	50,964	47,830	43,372
Net transfers and other adjustments (\$000s)	--	(4,920)	--	(3,439)
Operating result (\$000s)	--	(4,465)	5,914	4,354
Operating result % of revenues	--	(8.7)	11.0	8.5
Operating result three-year average %	--	3.6	3.4	0.7
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	51.1	55.7	44.9
Available reserves (\$000s)	--	26,297	29,926	22,968
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	11.0	10.3	11.6
Net direct debt per capita (\$)	3,666	3,234	3,440	3,848
Net direct debt (\$000s)	122,841	108,355	115,263	123,964
Direct debt 10-year amortization (%)	72	74	--	--
Pension and OPEB cost % of revenues	--	18.0	15.0	15.0
NPLs per capita (\$)	--	3,415	3,615	3,001
Combined NPLs (\$000s)	--	114,416	121,140	96,671

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

### Ratings List

#### New Issue Ratings

US\$24.185 mil GO bnds ser 2025 due 12/01/2044

## Northbrook Village, IL 2025 GO Bonds Assigned 'AAA' Rating

### Ratings List

Long Term Rating	AAA/Stable
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### Ratings Affirmed

#### Local Government

Northbrook Vill, IL Unlimited Tax General Obligation	AAA/Stable
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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