

New Issue: Moody's assigns Aa1 to Niles, IL's \$4.06M GO Bonds, Ser. 2014A

Global Credit Research - 07 Apr 2014

Aa1 applies to \$14.9M of post-sale GO debt

NILES (VILLAGE OF) IL
Cities (including Towns, Villages and Townships)
IL

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2014A	Aa1
Sale Amount \$4,060,000	
Expected Sale Date 04/16/14	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, April 07, 2014 --Moody's Investors Service has assigned a Aa1 rating to the Village of Niles' (IL) \$4.06 million General Obligation Bonds, Series 2014A. Concurrently, Moody's has affirmed the Aa1 rating on the village's outstanding general obligation unlimited tax (GOULT) debt. The village has \$14.9 million of total GOULT debt, including the current offering. Debt service on the current offering is secured by the village's GOULT, which is unlimited as to rate and amount. Proceeds of the Series 2014A bonds will be used for storm water capital improvements.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the village's mature and diverse tax base in the Chicago (Baa1, negative) metro area with a significant retail footprint; healthy General Fund reserves despite reliance on economically-sensitive sales tax revenues; financial flexibility afforded by the village's designation as a home rule unit of government; and small debt burden with rapid principal amortization.

STRENGTHS

- Residents benefit from employment opportunities in Chicago metropolitan area
- Significant financial flexibility afforded by the village's home rule status

CHALLENGES

- Recent declines to property tax valuations
- Dependence on economically-sensitive operating revenues

DETAILED CREDIT DISCUSSION

**LARGE AND DIVERSE TAX BASE FAVORABLY LOCATED WITHIN CHICAGO METRO AREA;
SIGNIFICANT RETAIL SECTOR**

Despite recent declines in full valuation, the village's tax base will likely remain healthy due to a diverse commercial sector and proximity to commuting centers throughout the Chicago metropolitan region. The village is located approximately 16 miles northwest of downtown Chicago bordering the northwest boundary of the city. The

village's tax base, fully valued at an estimated \$3.8 billion in 2013, previously experienced robust growth in the early to mid 2000's. Growth slowed with the onset of the national recession, and similar to other Chicago-area municipalities, the village's tax base experienced sizable declines in more recent years. The village's full valuation has contracted at an average annual rate of 4.5% over the last five years, inclusive of 9.4% and 8.4% in the two most recent years. While the village's tax base is predominantly residential, strong retail and commercial presence provides tax base diversification. The village serves as a retail hub and is one of the major sales tax generating communities in the State of Illinois (A3, negative). The village's retail base consists of many shopping centers and multiple large national retailers. The village is favorably located near multiple interstates (I-90, I-94, I-290), allowing convenient access for retail customers to the village and residents to multiple employment centers throughout the broader Chicago region. Resident income levels approximate state medians. The village's December 2013 unemployment rate of 6.8% was lower than that of the state's (8.6%), yet higher than that of the national figure (6.5%) for the same time period.

WELL-MANAGED FINANCIAL OPERATIONS MARKED BY GROWING RESERVES; ADDITIONAL FLEXIBILITY AFFORDED BY HOME RULE STATUS

The village's financial operations will likely remain sound due to considerable revenue raising flexibility and strong managerial oversight and conservative budgetary practices. The village's General Fund maintained a fund balance of \$25.9 million at the conclusion of fiscal 2009. Annual General Fund surpluses increased reserve levels to \$32.3 million, or a healthy 77.4% of revenues at the conclusion of fiscal 2013. The year-over-year favorable results were both revenue and expenditure driven. While the recession impacted sales tax collections, management budgeted the economically-sensitive revenue conservatively which resulted in favorable revenue variances. Variances in health insurance claims have also contributed to the village's recent operating surplus. Management notes that conservative budgeting in conjunction with claims well below historical norms has resulted in favorable variances of approximately \$500,000 annually for the past two years.

While management budgeted to conclude fiscal 2014 with a \$1.1 million operating deficit, year to date figures reflect a more favorable \$1 million General Fund operating surplus, primarily a result of strong sales tax revenue performance. While the village hasn't finalized a fiscal 2015 budget, preliminary projections show a reduction in General Fund reserves of approximately \$1.5 million. The draw incorporates the village's decision to apply \$1.5 million toward the village's unfunded pension liability. The contribution is discretionary and above the village's required contributions for all three pension plans for the year. The village's fund balance policy is to maintain a minimum of 25% of budgeted expenditures in reserve, though management has no plans to draw reserves down to this level.

DEBT PROFILE EXPECTED TO REMAIN MANAGEABLE

The village's debt profile is expected to remain favorable given manageable future borrowing plans and satisfactory amortization of outstanding debt. As a percentage of full value, direct and overall debt burdens (0.4% and 3%, respectively) are satisfactory. Management has outlined the potential to issue up to \$10 million for capital purposes over the next two years. All of the village's outstanding debt is fixed rate and amortizes over the long term. The village is not a party to any derivative agreements.

ELEVATED BUT MANAGEABLE PENSION LIABILITIES

Niles has an above average employee pension burden, based on unfunded liabilities for its participation in two single-employer plans and one multi-employer agent plan. Reported unfunded pension liabilities consist of \$29.6 million for the single-employer Niles Firefighters Pension Plan as of May 1, 2012, \$33.7 million for the single-employer Niles Police Pension Plan as of May 1, 2012, and \$9.5 million for Niles' portion of the Illinois Municipal Retirement Fund (IMRF) as of December 31, 2012. Together, these reported liabilities amount to \$72.8 million.

The village's fiscal 2013 adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension information, was \$136.3 million. In fiscal 2013, the village's ANPL represented 3.25 times operating revenues and 3.58% of full valuation. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace Niles' reported liability information, but to improve comparability with other rated entities.

WHAT COULD CHANGE THE RATING - UP

- Sizable growth in full valuation and socioeconomic figures

WHAT COULD CHANGE THE RATING - DOWN

- Significant weakening of tax base valuation and/or declines in economically sensitive revenues
- Substantial deterioration of reserve levels due to planned or unplanned operating deficits

KEY STATISTICS

Estimated full valuation: \$3.8 billion

Estimated full valuation per capita: \$127,621

Estimated median family income as % of the US: 106.4%

Available fund balance / operating revenue (fiscal 2013): 77.02%

5-year change in available fund balance / operating revenue: 18.03%

Net cash balance / operating revenue (fiscal 2013): 46.28%

5-year change in net cash balance / operating revenue: -1.19%

Institutional framework score: Aa

5-year average of operating revenue / operating expenditures: 1.03x

Net direct debt burden: 0.4% of full valuation; 0.36x operating revenue

3-year average Moody's ANPL: 1.9% of full valuation; 2.74x operating revenue

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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