

RatingsDirect®

Summary:

North Aurora, Illinois; General Obligation

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Summary:

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Credit Profile

US\$7.145 mil GO rfdg (alternate rev source) ser 2014 due 01/01/2029

Long Term Rating AA+/Stable New

North Aurora Vill GO

Long Term Rating AA+/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to North Aurora, Ill.'s series 2014 general obligation (GO) refunding bonds (alternate revenue source). At the same time, we affirmed our 'AA+' unenhanced rating on the village's outstanding debt. The outlook is stable.

The rating reflects our assessment of the following factors for the village:

- Strong economy with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate budgetary performance;
- Very strong budgetary flexibility with 2014 available reserves at more than 100% of general fund expenditures;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions with good financial policies and practices; and
- Adequate debt and contingent liability profile, with rapid principal amortization.

The village will use bond proceeds to advance refund a portion of its series 2008 GO bonds (alternate revenue source). The bonds are secured by the village's pledge of sales and use taxes (the alternate revenue source) and – to the extent pledged revenues are insufficient – a pledge of ad valorem property taxes levied on all taxable property within the village without limitation as to rate or amount. The village will abate the annual property tax levy only to the extent that pledged revenues sufficient to cover debt service.

Strong economy

North Aurora's economy is strong, in our view. With an estimated population of 17,533, the village is on Interstate 88 in east-central Kane County, roughly 40 miles west of downtown Chicago, and therefore participates in the broad and diverse economy of the Chicago-Naperville-Elgin metropolitan area. With an estimated market value of \$1.3 billion, the village's per capita market value is currently \$74,999. Market value had declined in the past few years from a peak of about \$1.7 billion in 2010, though the 2014 figures show a slight increase from 2013, the first such increase in several years. The village's per capita effective buying income is projected at 122% of the national level in five years.

Adequate budgetary performance

While fiscal 2014 saw what we consider a strong budgetary performance, we expect the current year's performance to be adequate. Fiscal 2014 (May 31 year-end) closed with surpluses of 3.5% of expenditures in the general fund (after adjusting expenditures to include routine transfers out) and 8% in the total governmental funds. While fiscal 2015 was

budgeted at close to break-even in the general fund, management indicates the result could be a surplus of close to \$400,000 (4% of budgeted expenditures) due to higher-than-anticipated fee revenues. Because several of the other governmental funds are budgeted for drawdowns, a deficit of about 9.8% of expenditures is projected for total government funds for 2015.

Very strong budgetary flexibility

We consider the village's budgetary flexibility very strong. Fiscal 2014 closed with available general fund reserves of \$6.2 million. With an additional \$3.5 million in available reserves in the capital projects and sanitary sewer funds, reserves total \$9.7 million, or 104% of operating expenditures. With some drawdowns planned in the sanitary sewer and capital projects in 2015, reserves were budgeted to decline to 92% of expenditures, though with the general fund expected to come out ahead of budget, the year-end actual result will likely be higher. We believe that the village will be able to sustain its available reserves above 75% of expenditures through at least the next two years, which is a credit strength that we take into account in our overall assessment of the village's credit quality.

Very strong liquidity

North Aurora's liquidity position is very strong, in our view, with total primary government available cash, cash equivalents, and short-term investments at 107% of total governmental funds expenditures, and more than 12x debt service carrying charges at the close of fiscal 2014. We do not expect the village's liquidity position to change materially. The village also has what we regard as strong and well-tested access to external sources of liquidity, as demonstrated by a record of frequent debt issuance over the past few decades.

Strong management

The village's management is strong, in our view, with "good" financial management policies and practices under our Financial Management Assessment methodology, indicating that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

Adequate debt profile

North Aurora's debt and contingent liability profile is adequate, with governmental funds debt service carrying charges at 8.7% of expenditures, and with direct debt (net of debt supported by the village's water system) at 75% of total governmental funds revenues in fiscal 2014. The village is paying off its direct debt rapidly, with 72% of principal scheduled for retirement over the next 10 years. We understand that management has no plans to issued tax-backed debt at this time.

The village participates in the Illinois Municipal Retirement Fund (IMRF) and the Illinois Police Pension Fund and also subsidizes other postemployment benefits (OPEBs) for retirees. Fiscal 2014 pension and OPEB contributions came to 6.2% of total governmental funds expenditures. At the close of 2014, the village's unfunded liability was \$6.4 million for the police pension fund (66% funded), \$1.1 million for IMRF (81% funded), and about \$635,000 (0% funded) for the OPEB plan. We do not believe that the village's overall pension and OPEB liability is currently a source of budgetary strain, though we will continue to monitor its budgetary impact in future reviews.

Strong Institutional Framework

As a non-home rule Illinois village subject to Property Tax Extension Limitation Law, which limits property tax levy increases to the lesser of 5% or the rate of inflation (with exceptions for new construction), we consider the village's

institutional framework strong. (See Institutional Framework Overview: Illinois Local Governments.)

Outlook

The stable outlook reflects our expectation that North Aurora will sustain very strong budgetary flexibility and at least adequate budgetary performance through our two-year horizon. If reserves deteriorate in a manner that we believe compromises the village's budgetary flexibility, we could lower the rating. While we do not anticipate any credit factors improving sufficiently to warrant an upgrade in the next few years, improvement in the village's economy -- particularly in the form of higher market value per capita -- and a stronger debt profile, coupled with maintenance of exceptional budgetary flexibility, could lead to an upgrade.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of October 7, 2014)

North Aurora Vill GO (AGM)

Unenhanced Rating

AA+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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