

RatingsDirect®

Summary:

North Aurora, Illinois; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

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Credit Profile

US\$5.8 mil GO bonds (wtrwks sys alternate rev source) ser 2017 dtd 04/04/2017 due 01/01/2032

Long Term Rating

AA+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to North Aurora, Ill.'s series 2017 general obligation (GO) bonds (alternate revenue source). At the same time, we affirmed our 'AA+' rating on the village's outstanding debt. The outlook is stable.

The village will use bond proceeds to pay for improvements to its waterworks system. The bonds are secured by the village's pledge of waterworks enterprise fund revenues and, to the extent pledged revenues are insufficient, an 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.

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);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with an operating surplus in the general fund and an operating shortfall at the total governmental fund level caused by capital spending in fiscal 2016;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2016 of 100% of operating expenditures;
- Very strong liquidity, with total government available cash at 81.5% of total governmental fund expenditures and 10.8x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 7.5% of expenditures and net direct debt that is 96.6% of total governmental fund revenue, as well as rapid amortization, with 69.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider North Aurora's economy strong. The village, with an estimated population of 17,692, is located in Kane County in the Chicago-Naperville-Elgin, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 113% of the national level and per capita market value of \$78,040. Overall, the village's market value grew by 6.8% over the past year to \$1.4 billion in 2016. The county unemployment rate was 5.8% in 2015.

North Aurora is 40 miles west of downtown Chicago on Interstate 88 in Kane County. Residents have easy access to a wide variety of employment opportunities in nearby Aurora and Naperville, and can commute to Chicago via Metra

commuter rail stations in Aurora. After falling for several years because of declining property values during the Great Recession, the tax base in terms of equalized assessed value rose 0.9% in 2014 and 6.8% in 2015 to \$460.2 million. The village is home to a large auto mall and, according to management, is experiencing residential and commercial growth.

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 on a regular basis.

Management uses up to 10 years of historical trends to prepare its budget proposals, which are based on line-by-line recommendations with some performance measurements. The board receives monthly budget-to-actual reports and investment updates. Management engages in long-term financial projections covering the current year plus 10 future years, and annually updates multiyear capital plans for roads, the waterworks system, and buildings. The village has its own investment and debt management policies. The board-approved fund balance policy requires general fund reserves to be 40%-50% of expenditures at the end of the fiscal year to cover cash flow needs and contingencies.

Adequate budgetary performance

North Aurora's budgetary performance is adequate in our opinion. The village had surplus operating results in the general fund of 2.2% of expenditures, and a shortfall caused by capital spending across all governmental funds of 4.5% in fiscal 2016.

General fund performance for fiscal 2016 (May 31) reflects transfers to other funds. Sales taxes accounted for 43% of general fund revenues in fiscal 2016, while property taxes were 20%.

For fiscal 2017, management projects a \$46,400 general fund surplus, and anticipates that the general fund budget for fiscal 2018 will be structured with break-even operations. We therefore expect budgetary performance will be adequate or strong over the immediate future.

Very strong budgetary flexibility

North Aurora's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2016 of 100% of operating expenditures, or \$10.1 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes \$6.6 million (65.3% of expenditures) in the general fund and \$3.5 million (35% of expenditures) that is outside the general fund but legally available for operations. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 99% of expenditures in 2015 and 105% in 2014.

Flexibility consists of the unassigned general fund balance. As a non-home rule entity in Kane County, the village is subject to the Property Tax Extension Limitation Law's annual levy cap equal to the lesser of 5% and the rate of inflation, with additional levy allowed for new construction. The village therefore has a measure of revenue flexibility because it can annually increase its operating levy. Given management's projections for 2017 and 2018, we expect that flexibility will remain very strong for the immediate future.

Very strong liquidity

In our opinion, North Aurora's liquidity is very strong, with total government available cash at 81.5% of total governmental fund expenditures and 10.8x governmental debt service in 2016. In our view, the village has strong access to external liquidity if necessary.

Liquidity consists of \$12.4 million of unrestricted cash and cash equivalents held by all governmental and enterprise funds at the end of fiscal 2016. The village does not have any variable-rate or direct-purchase debt that might compromise liquidity. Given management's budgetary projections for 2017 and 2018, we anticipate that liquidity will remain very strong over the near term.

Strong debt and contingent liability profile

In our view, North Aurora's debt and contingent liability profile is strong. Total governmental fund debt service is 7.5% of total governmental fund expenditures, and net direct debt is 96.6% of total governmental fund revenue.

Approximately 69.6% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. Management reports that the village does not have additional debt plans at this time.

North Aurora's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.5% of total governmental fund expenditures in 2016. The village made 125% of its annual required pension contribution to the police pension plan in 2016.

The general employee pension plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), to which the village pays its full employer actuarially determined contributions every year. The IMRF plan was 79.4% funded in terms of net position as a percent of total pension liability as of Dec. 31, 2015, with a net pension liability of \$1.96 million. The village's firefighters are covered by the pension system managed by the local fire protection district. The police pension plan is a defined-benefit, single-employer plan, the benefits and contributions for which are set by state statute. The board in 2011 approved a policy to increase the village's contributions to the police pension plan above the state's statutory required level to reach 100% funding by 2040. As of May 31, 2016, the police plan was 58.4% funded a percent of total pension liability, with a net pension liability of \$10 million. The village also offers OPEB on a pay-as-you-go basis to eligible retirees.

Strong institutional framework

The institutional framework score for Illinois non-home rule cities and villages subject to the Property Tax Extension Limitation Law is strong.

Outlook

The stable outlook reflects our expectation that North Aurora will report at least break-even operations in most years and sustain very strong budgetary flexibility, very strong liquidity, and at least adequate budgetary performance through our two-year horizon.

Downside scenario

We may lower the rating if the village falls into a structural imbalance that results in a drop in budgetary performance and flexibility, particularly if flexibility falls below 75% of general fund expenditures.

Upside scenario

An upgrade could be considered if key economic indicators improve while very strong budgetary flexibility above 75% of general fund expenditures is maintained.

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

Ratings Detail (As Of March 2, 2017)

North Aurora Vill GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
North Aurora Vill GO rfdg lib bnds ser 2009 dtd 11/15/2009 due 01/01/2011-2021		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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