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Summary:

North Aurora Village, Illinois; General Obligation

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Credit Profile

North Aurora Vill GO

Long Term Rating

AA/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term and underlying (SPUR) ratings on North Aurora, Ill.'s outstanding general obligation (GO) debt to 'AA' from 'AA-'. The outlook is stable.

The upgrade reflects improved sales tax environment which has strengthened the village's financial position.

The 'AA' rating also reflects the village's:

- Participation in the Chicago metropolitan area's deep and diverse economy;
- Strong incomes and very strong wealth;
- Very strong general fund reserves, supported by good financial management practices; and
- Moderate overall debt burden with rapid amortization and no additional debt plans.

In our view, these credit strengths are partly tempered by the village's heavy reliance on sales taxes, which are more vulnerable to economic swings.

The village's full faith and credit GO pledge secures the debt.

North Aurora is on Interstate 88 in east-central Kane County, about 36 miles west of downtown Chicago. The village's affordable housing stock and proximity to the diverse job market in Chicago's western suburbs, particularly nearby Aurora and Naperville, have led to significant population growth. After increasing 78% in the 1990s, the village's population grew 58% between the 2000 and 2010 U.S. Censuses to 16,760. We view the village's incomes as strong, with median household and per capita effective buying income at 121% and 110% of national levels, respectively. Unemployment in Kane County averaged 8.8% during the first 11 months of 2012, compared to the state and national averages of 8.9% and 8.1%, respectively.

The village's equalized assessed valuation (EAV) decreased 5.5% and 8.6% during levy years 2010 and 2011, respectively, due to falling residential and commercial values, and management estimates that the tax base will decline by another 6% in 2012. The levy year 2011 estimated market value of \$1.49 billion translates to a still very strong \$88,836 per capita. The tax base is very diverse, with the 10 largest taxpayers accounting for only 7% of EAV.

In our view, North Aurora has consistently managed a very strong financial position. The largest source of general fund revenue is sales taxes, at 43%, followed by property taxes (22%) and state shared income taxes (16%). After falling 12.7% from fiscal years 2008 to 2010, sales taxes rebounded for 9.4% and 8.1% increases in 2011 and 2012, respectively. Property taxes are subject to a levy cap equal to the lesser of 5% or the rate of inflation, except with

regard to new construction. As a result, the village has been able to increase its tax rate to offset the decreasing tax base values and maintain steady revenues.

The village's available general fund balance increased \$790,000 during the past three years to \$5.4 million in fiscal 2012 (May 31), or a very strong 69% of fund expenditures. The village also reports a combined \$2.2 million in its capital projects and sanitary sewer system funds that could be made available to support general operations. The village originally budgeted for a small general fund drawdown for fiscal 2013 to fund one-time capital projects, yet currently expects to report a marginal surplus because of better-than-expected revenue collections, primarily sales and income taxes. For fiscal 2014, management anticipates at least break-even operations despite some increase in operating expenditures. Management anticipates continued compliance with the village's formally adopted reserve policy of 40% to 50% of expenditures. Dating to fiscal 2007, reserves have been no lower than 58%, demonstrating the village's commitment to its policy.

We consider the village's financial management practices "good" under Standard & Poor's Financial Management Assessment, indicating practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

North Aurora's overall net debt is, in our view, moderate at \$3,899 per capita and 4.4% of estimated market value. Debt amortization is rapid with 72% of direct debt due to retire in 10 years and 100% by 2029. Debt service carrying charges were moderate, at 12% of total governmental funds expenditures less capital outlay in fiscal 2012. Management has indicated no additional debt plans beyond potential refinancing.

North Aurora contributes to the Illinois Municipal Retirement Fund (IMRF) and a single-employer Police Pension Plan for pension benefits. The village continues to meet or exceed 100% of both plan's annual required contributions. The IMRF and police pension plans have funded ratios of 72% and 65%, respectively, and a combined unfunded actuarial accrued liability (UAAL) of \$6.8 million. The village also provides postemployment health care benefits on pay as you go basis through a single-employer defined-benefit plan, and reported an UAAL of \$699,000. Combined pension and other postemployment benefit costs amount to 8.1% of total governmental fund expenditures, less capital outlay.

Outlook

The stable outlook reflects our expectation that North Aurora will take the necessary steps to maintain very strong reserves in line with its 40% to 50% reserve policy. The village's location along Interstate 88 and its easy access to ample employment opportunities in the area add to rating stability, particularly as they provide a foundation for steady sales and property taxes. Given the strength of available reserves, which currently amount to more than 65% of the operating budget, and management's demonstrated ability to balance a budget with declining sales taxes and flat property taxes, we do not anticipate changing the rating over the two-year outlook period.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

- USPF Criteria: Financial Management Assessment, June 27, 2006

Ratings Detail (As Of January 25, 2013)		
North Aurora Vill GO (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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