S&P Global
Ratings

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Summary:

North Aurora, Illinois; General Obligation

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Summary:

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Credit Profile		
US$13.625 mil GO bnds (alternate rev source) ser 2024 dtd 10/21/2024 due 01/26/2044		
Long Term Rating	AA+/Stable	New
North Aurora Vill GO bnds (wtrwks sys alternate rev source)		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to North Aurora, Ill.'s anticipated $13.625 million series 2024 general obligation (GO) bonds (alternate revenue source) based on the application of its "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the village's general obligation (GO) debt outstanding.
- The outlook is stable.

Security

North Aurora's state sales and use tax revenue and ad valorem-property-tax pledge, without limitation as to rate or amount, secure the series 2024 bonds. Officials abate the property tax levy in anticipation of the collection of pledged revenue, but we believe the village's favorable cash position and conservative budget practices overcome any potential issues that may arise from a potential fluctuation in pledged sales taxes. We rate to the village's GO pledge because bond provisions are insufficient to rate to the sales tax. The village's other GO alternate revenue source debt is secured by waterworks revenue, but we also rate that debt to the GO pledge.

The bonds will be used to construct a new public works facility. Officials have no plans to issue additional debt in the near term.

Credit overview

North Aurora's financial and debt profile continue to benefit from management's long-term focus on financial and capital viability. Besides property taxes, state shared income and sales taxes, as well as a nonhome-rule local sales tax, are important components of the village's revenue stream. Despite the reliance on what can be economically sensitive revenue, the budget, which includes a modest annual transfer to the capital fund, typically ends with positive budget variances and permits the village to direct significantly more resources toward funding capital projects. The rating also incorporates our view of the village's low debt burden and strong capacity to fund its public safety pension plan.

Given what we expect will continue to be positive financial performance, we expect limited downside rating pressure during the two-year outlook horizon. Upside rating potential is limited and will most likely depend on improvement in wealth and income metrics, which comparatively fall below those of higher-rated credits.

Credit fundamentals supporting the 'AA+' GO rating include:

- Per capita gross county product for Kane County is 81.6% of the U.S. level, and per capita personal income is 97.6%, both of which reflect the county's participation in the large, broad, and diverse Chicago metropolitan area. The village is 40 miles west of downtown Chicago and has closer access to jobs in nearby Aurora and Naperville.
- Operating results are typically positive, even after sizeable transfers out for capital projects, given conservative budget assumptions and management controls, and we expect ongoing balanced results in most years. Management expects to report a $424,000 general fund surplus after another large transfer out ($2.6 million) for capital projects in 2024, and its 2025 budget also calls for a surplus. Revenues such as sales tax, income tax, building permit revenue, and investment income have strongly outperformed budgeted assumptions. The strong revenue base has allowed the village to cash fund projects and afford to make pension contributions above statutory requirements.
- Reserves are supported by a requirement to maintain a minimum fund balance in the general fund of 40%-50% of annual expenditures and transfers, and we expect reserves will remain compliant with the policy requirement.
- Budgeting practices are conservative, in our view, and incorporate annually updated robust long-term financial projections and capital planning. The village's financial operations further benefit from proactive monitoring of trends when the budget is adopted. Officials regularly monitor both reserves and investments for adherence to its policies, and its debt policy mirrors statutory guidelines.
- The village has a history of debt restraint, with a low per capita debt burden and manageable debt service carrying charges. Management reports no near-term bonding plans or significant capital needs.
- Exposure to pension and other postemployment benefits (OPEB) liabilities is moderate but manageable. The village targets funding the police pension plan to 100% by fiscal 2040, which is above the state's 90% threshold. However, fiscal 2023 contributions to the plan were 75% and 95% of our minimum funding progress and static funding metrics, respectively, indicating that it will take time before improvement registers on the funding level of the plan.
- The institutional framework: for more information on our institutional framework assessment for Illinois municipalities, see "Institutional Framework Assessment: Illinois Local Governments," published Sept. 10, 2024, on RatingsDirect.

Environmental, social, and governance

Environmental, social, and governance factors are neutral within the credit analysis. The village's cyber security practices align with those of its peers.

Outlook

The stable outlook reflects our view of North Aurora's conservatively managed operating budget and our expectation that operations will remain at least balanced through the next two years, with reserves remaining at levels that conform with the village's fund balance policy requirement.

Downside scenario

We could lower the rating if North Aurora's financial performance reverses, causing reserves to fall below the fund balance policy requirement without a plan for timely replenishment, or if it elected to issue a substantial amount of debt that materially increased its debt burden and debt service carrying charges, causing diminished budgetary flexibility.

Upside scenario

We could raise the rating if the village realized economic growth that results in higher economic metrics that better align with those of its peers at the 'AAA' rating.

Table 1

North Aurora, Illinois--credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	1.66
Economy	3.0
Financial performance	1
Reserves and liquidity	1
Debt and liabilities	2.00
Management	1.30

Table 2

North Aurora, Illinois--key credit metrics

	Most recent	2023	2022	2021
Economy				
GCP per capita % of U.S.	82	--	82	82
County PCPI % of U.S.	98	--	98	98
Market value ($000s)	2,117,577	1,961,994	1,827,444	1,769,733
Market value per capita ($)	112,517	104,250	99,942	98,188
Top 10 taxpayers % of taxable value	12	11	11	10
County unemployment rate (%)	5.5	5.1	4.7	6.0
Local median household EBI % of U.S.	125	125	125	126
Local per capita EBI % of U.S.	118	103	105	102
Local population	18,820	18,820	18,285	18,024
Financial performance				
Operating fund revenues ($000s)	--	15,955	15,292	14,517
Operating fund expenditures ($000s)	--	11,930	11,190	10,646
Net transfers and other adjustments ($000s)	--	(3,619)	(3,287)	(3,717)
Operating result ($000s)	--	406	815	154
Operating result % of revenues	--	2.5	5.3	1.1
Operating result three-year average %	--	3.0	2.5	1.6
Reserves and liquidity				
Available reserves % of operating revenues	--	54.2	53.7	51.6
Available reserves ($000s)	--	8,643	8,213	7,492
Debt and liabilities				
Debt service cost % of revenues	2.9	2.9	3.2	5.5
Net direct debt per capita ($)	1,124	390	444	497
Net direct debt ($000s)	21,156	7,337	8,110	8,960
Direct debt 10-year amortization (%)	53.0	--	--	--

Table 2

North Aurora, Illinois--key credit metrics (cont.)				
	Most recent	**2023**	**2022**	**2021**
Pension and OPEB cost % of revenues	8	8	9	9
Net pension liabilities per capita ($)	1,066	1,066	811	650
Combined net pension liabilities ($000s)	20,067	20,067	14,829	11,720

GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022