

RatingsDirect®

Summary:

Vernon Hills Village, Illinois; General Obligation

Primary Credit Analyst:

Andrew J Truckenmiller, Chicago (1) 312-233-7032; andrew.truckenmiller@standardandpoors.com

Secondary Contact:

John A Kenward, Chicago (1) 312-233-7003; john.kenward@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$5.42 mil GO bnds ser 2015B due 12/30/2026

Long Term Rating AAA/Stable New

US\$2.055 mil GO bnds ser 2015A due 03/30/2034

Long Term Rating AAA/Stable New

Vernon Hills

Long Term Rating AAA/Stable Affirmed

Vernon Hills GO

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Vernon Hills Village, Ill.'s series 2015A general obligation (GO) and 2015B GO refunding bonds, and affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the village's GO debt outstanding. The outlook is stable.

The bonds are general obligations of the village secured by unlimited ad valorem taxes. The village will use series 2015A bond proceeds to finance various capital improvements within the village. The 2015B bond proceeds will be used to currently refund a portion of the village's series 2007A bonds.

The ratings reflect our assessment of the village's:

- Very 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 (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2015, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2015 of 113% of operating expenditures;
- Very strong liquidity, with total government available cash of 127.1% of total governmental fund expenditures and 29.2x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 4.4% of expenditures and net direct debt that is 102.0% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 79.6% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Very strong economy

We consider Vernon Hills' economy very strong. The village, with an estimated population of 25,911, is located in Lake County in the Chicago-Naperville-Elgin, Ill.-Ind.-Wis. MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 163% of the national level and per capita market value of \$119,728. Overall, the village's market value was stable over the past year at \$3.1 billion in 2015. The county unemployment rate was 6.5% in 2014.

Vernon Hills benefits from access to the Chicago metropolitan area's broad and diverse economy, and from its status as a major retail hub for the northern suburbs. The village is in Lake County, about 35 miles north of downtown Chicago. Residents have access to a wide variety of jobs locally and throughout both Lake County and the metropolitan area via interstates 90 and 294.

Strong management

We view the village's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The village reports to the village board on budget-to-actual performance and investments monthly. The village uses historical trends and internal projections when setting the annual budget. The village maintains long-term financial and capital plans, which it updates annually. The village has a formal general fund policy of maintaining unrestricted reserves at a level equal to at least 67% of operating expenditures.

Strong budgetary performance

Vernon Hills' budgetary performance is strong in our opinion. The village had operating surpluses of 7.4% in the general fund and 6.4% across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

As a home-rule community, the village is not subject to property tax limits and can increase its home-rule sales tax without voter approval. The village does not levy property taxes at this time. Sales taxes accounted for 52% of general revenues in fiscal 2015, while most of the rest was provided by state income tax distributions (12.0%), utility taxes (6.3%), and telecommunication taxes (5.3%). Sales tax revenues have been stable between fiscal years 2004 and 2015, ranging from \$9.15 million to \$10.99 million. The village board approved a 0.25% sales tax increase that began in January 2015; management reports that the village plans to use half of the new revenue to cover a tax rebate agreement, and the remainder to reduce the utility tax, pay GO bond debt service, and fund road projects. Because the village receives little or no funding from the federal government, it is our opinion that its finances are insulated from federal budgetary issues. The fiscal 2016 budget shows a \$495,000 operating surplus, and officials expect to spend this surplus on capital needs, as well as positive results in the total governmental fund. However, we expect the fiscal 2016 surplus to be less than 5%, which represents a budgetary deterioration from past years.

Very strong budgetary flexibility

Vernon Hills' budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2015 of 113% of operating expenditures, or \$23.3 million. We expect the available fund balance will remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The village's available reserve portion is measured in terms of combined general fund and dispatch center fund expenditures. The dispatch center's fund is routinely subsidized by transfers from the general fund. We do not expect the village's flexibility to deteriorate, as management is expecting at least a \$500,000 surplus in fiscal 2016.

Very strong liquidity

In our opinion, Vernon Hills' liquidity is very strong, with total government available cash of 127.1% of total governmental fund expenditures and 29.2x governmental debt service in 2015. In our view, the village has strong access to external liquidity if necessary.

We believe the village has strong access to external liquidity, because of its recent history of issuing GO bonds. The village does not have any direct-purchase or privately placed debt. We expect the village's liquidity position to remain very strong.

Strong debt and contingent liability profile

In our view, Vernon Hills' debt and contingent liability profile is strong. Total governmental fund debt service is 4.4% of total governmental fund expenditures, and net direct debt is 102.0% of total governmental fund revenue. Overall net debt is low at 2.8% of market value and approximately 79.6% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Negatively affecting our view of the village's debt profile is its significant medium-term debt plans.

The village has indicated it may issue approximately \$20 million in late 2016 to build new infrastructure for a new tax increment district at Milwaukee and Town Line road. We believe this could negatively affect the debt profile.

Vernon Hills' combined pension and other postemployment benefits contributions totaled 9.5% of total governmental fund expenditures in 2015. The village made its full annual required pension contribution in 2015.

Nonpublic safety employees are covered by the Illinois Municipal Retirement Fund (IMRF), to which the village pays 100% of its annual pension cost (APC). The IMRF funded level was 74.71% as of Dec. 31, 2015. The police are covered by a single-employer defined-benefit pension plan, to which the village paid 100% of its APC over the last three audited fiscal years. As of April 30, 2015, the police plan was 69% funded, which reflects an assumed 6% investment rate of return. Retirees are allowed to stay on the village's health plan at their own expense, and the village subsidizes retiree health care only for a small number of retirees. Required pension contributions and retiree health care costs, including implicit rate subsidies, in fiscal 2014 amounted to \$2.094 million.

Strong institutional framework

The institutional framework score for Illinois home-rule cities and villages is strong. See the institutional framework scores for local governments in Illinois.

Vernon Hills' GO bonds are eligible to be rated above the sovereign because we believe the village can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions", U.S. local governments are considered to have moderate sensitivity to country risk. Vernon Hills' general obligation pledge is the sole source of security on the bonds; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the village. The institutional framework in the U.S. is predictable for local governments, allowing them significant

autonomy, independent treasury management, and no history of government intervention. Vernon Hills' financial flexibility is demonstrated by the very high general fund balance as a percentage of expenditures, as well as very strong liquidity.

Outlook

The stable outlook reflects our expectation that management will maintain balanced or positive general fund operations in most years and sustain at least adequate budgetary performance and very strong financial flexibility and liquidity. We may lower the ratings if the village is unable to maintain balanced operations and budgetary performance and flexibility weaken substantially as a result, particularly if the available fund balance falls below 75% of general fund expenditures.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Institutional Framework Overview: Illinois Local Governments

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