

New Issue: Moody's assigns Aa2 to Lemont, IL's GO Bonds, Series 2014A&B

Global Credit Research - 07 Aug 2014

Aa2 applies to \$31.5 million of post-sale GO debt

LEMONT (VILLAGE OF) IL
Cities (including Towns, Villages and Townships)
IL

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds (Alternate Revenue Source), Series 2014A	Aa2
Sale Amount	\$970,000
Expected Sale Date	08/11/14
Rating Description	General Obligation
Taxable General Obligation Refunding Bonds (Alternate Revenue Source), Series 2014B	Aa2
Sale Amount	\$980,000
Expected Sale Date	08/11/14
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, August 07, 2014 --Moody's Investors Service has assigned a Aa2 rating to the Village of Lemont's (IL) \$970,000 General Obligation Bonds (Alternate Revenue Source), Series 2014A and \$980,000 General Obligation Refunding Bonds (Alternate Revenue Source), Series 2014B. Proceeds from the Series 2014A and Series 2014B bonds will refund certain maturities of the Village's General Obligation Bonds (Alternative Revenue Source), Series 2005 and Series 2012B for net present value savings. While debt service on the bonds is ultimately secured by the village's general obligation (GO) unlimited tax pledge, village officials anticipate retiring the bonds with sales tax revenues, state income tax shared revenues, and incremental tax revenue from the village's Gateway TIF district. Concurrently, Moody's maintains the Aa2 rating on the village's GO debt, of which \$31.5 million will be outstanding following the current offering.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the village's moderately-sized tax base in the Chicago (GO rated Baa1/negative outlook) metropolitan area, structurally balanced operations bolstered by healthy General Fund reserves, and a moderate debt burden with limited future borrowing needs.

STRENGTHS

- Favorable location in the Chicago metropolitan area
- Above average demographic profile
- Healthy General Fund reserves

CHALLENGES

- Multi-year trend of tax base devaluation

- General Fund exposure to economically-sensitive revenues

DETAILED CREDIT DISCUSSION

DIVERSE TAX BASE IN CHICAGO METROPOLITAN AREA; RECENT VALUATION DECLINES

Despite a recent declines in assessed valuation, it is expected that the village's tax base will stabilize over the long-term due to the relative diversity of its property taxpayers, its favorable socioeconomic profile and its proximity to employment centers throughout the Chicago metropolitan area. Located in Cook (GO rated A1/negative outlook), DuPage (GO rated Aaa), and Will (GO rated Aa1) counties, Lemont is approximately 18 miles from downtown Chicago and is adjacent to major transportation networks, including Interstates 55 and 355. The village is also located along the Illinois and Michigan Canal and enjoys rail access on the Heritage Corridor. Resident income levels exceed those of the state and nation, with median family income estimated at 153.3% and 141.6% of US and Illinois figures, respectively.

The village's moderately-sized \$1.6 billion tax base has declined each of the last three years, falling 17.0%, 7.5%, and 5.3% in 2011, 2012, and 2013, respectively. The large 17.0% decline in 2011 followed the triennial property reassessment in Cook County and was not out of line with neighboring jurisdictions. Favorably, in levy year 2015, the Downtown TIF will expire and is expected to add approximately \$39.1 million to the village's full value. The village's tax base is diverse, with the ten largest property taxpayers comprising just 8.1% of 2013 assessed valuation. Residential and commercial redevelopment has occurred in the village's two downtown tax increment districts, and management reports that the village has ample land available to support future growth.

FINANCIAL OPERATIONS EXPECTED TO REMAIN SOUND IN THE NEAR TERM

Financial operations of the village are expected to remain sound in the near term due to the presence of healthy General Fund reserves combined with management's conservative budget practices. The village has experienced four consecutive years of operating surpluses, improving the General Fund balance to \$2.4 million, or a healthy 29.5% of revenues, in fiscal 2013 from a low of \$597,000 in fiscal 2009. Management attributes the improved General Fund position to the implementation of more conservative budget management and long-term planning policies, coupled with the rebounding of economically-sensitive revenue streams. Although audited figures are not available for fiscal 2014, management is expecting to add approximately \$20,000 to the General Fund balance. The village also maintains alternate liquidity in its Working Cash fund, which is estimated at \$817,000 as of the close of fiscal 2014. Management budgeted for balanced operations in fiscal 2015. As part of the village's long-term planning strategy, officials plan on maintaining General Fund reserves between 25% and 30% of expenditures. Officials note, that if unrestricted reserves were to grow above 40% of General Fund expenditures, excess reserves may be transferred to the Capital Project Fund to support future capital projects.

The village's primary General Fund revenue sources are property taxes (29%), along with economically-sensitive sales (21%) and state shared income (17%) taxes. As an Illinois non-home rule unit of local government, the city's revenue raising options are limited relative to Illinois home rule entities. The village is currently operating at its property tax cap in its General Fund, which limits growth to the lesser of CPI or 5% on an annual basis. Village management reports that sales tax and state shared income tax revenues came in over budget for fiscal 2014. The two revenue streams are estimated to have increased 3.3% and 8.1%, respectively, over fiscal 2013 collections. With economically-sensitive revenues on the uptick, structurally balanced General Fund operations, and a forward-looking management team, it is our expectation that the village will continue to maintain its financial stability over the medium term.

ABOVE AVERAGE DEBT BURDEN SUPPORTED BY ALTERNATE REVENUE SOURCES

At 2.0% and 6.9% of estimated full value, the village's direct and indirect debt burdens are above average though manageable due to adequate alternative tax revenues to pay debt service and a lack of future borrowing plans. All of the district's outstanding GO bond issuances are backed by an alternative revenue source that includes sales tax revenues, state income tax shared revenues, utility system net revenues, and TIF revenues. We consider debt paid by utility net revenues to be self-supporting and we exclude it from our calculation of net direct debt. Principal amortization is slower than average, with 53% of the village's outstanding debt retired in 10 years. The village does not plan to issue additional new money debt in the near term. All of the village's debt is fixed rate, and the village is not a party to any interest rate swap agreements.

MANAGEABLE PENSION OBLIGATIONS ASSOCIATED WITH MULTI-EMPLOYER AND SINGLE-EMPLOYER AGENT PLANS

The village has a moderate employee pension burden, based on unfunded liabilities for its participation in one single-employer plan and one multi-employer agent plan. Reported unfunded pension liabilities consist of \$6.2 million for the village's single-employer police pension fund and \$2.2 million for the village's portion of the Illinois Municipal Retirement Fund (IMRF) as of December 31, 2012. Moody's fiscal 2013 adjusted net pension liability (ANPL) for the village, under our methodology for adjusting reported pension data, is \$19.6 million or 2.17 times operating revenues. The three year average ANPL for the city is 1.66 times annual revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the village's reported liability information, but to improve comparability with other rated entities.

WHAT COULD CHANGE THE RATING - UP

- Significant growth in the village's tax base and socio-economic profile
- Continued growth in financial reserves to that of similarly rated entities

WHAT COULD CHANGE THE RATING - DOWN

- Further tax base devaluation or weakening of the village's demographic profile
- Material declines in General Fund reserve levels

KEY STATISTICS

2013 Full Value: \$1.6 Billion

Full Value Per Capita: \$99,701

Median Family Income as % of US: 153.3%

Fund Balance as % of Revenues, Fiscal 2013: 26.27%

5-Year Dollar Change in Fund Balance as % of Revenues: 9.76%

Cash Balance as % of Revenues, Fiscal 2013: 31.07%

5-Year Dollar Change in Cash Balance as % of Revenues: 16.05%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.00x

Net Direct Debt / Estimated Full Value: 2.00%

Net Direct Debt / Operating Revenues: 3.53x

3-Year Average ANPL as % of Estimated Full Value: 0.94%

3-Year Average ANPL / Operating Revenues: 1.66x

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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