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Summary:

Vernon Hills, Illinois; General Obligation

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Credit Profile		
US$5.71 mil GO bnds ser 2014 due 03/30/2034		
Long Term Rating	AAA/Stable	New
Vernon Hills		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Vernon Hills, Ill.'s series 2014 general obligation (GO) refunding bonds, and affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the village's outstanding GO debt. The outlook is stable.

The rating reflects our assessment of the village's:

- Very strong economy;
- Very strong budgetary flexibility in terms of available reserves in the general fund;
- Strong budgetary performance;
- Very strong liquidity in terms of total government cash available to cover debt service and total expenditures;
- Strong management conditions; and
- Strong debt and contingent liabilities position.

The bonds are GOs of the village secured by unlimited ad valorem taxes. The village will use series 2014 bond proceeds for various capital projects and to refund prior debt for savings.

Very strong economy

We consider Vernon Hill's economy very strong, with market value per capita at $121,540 and projected per capita effective buying income for 2018 at 168% of the nation's level. Median household effective buying income is very strong, in our opinion, at 162% of the nation's level. Vernon Hills, with an estimated 25,610 residents, 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. Lake County's unemployment rate for 2013 was 8.7%, above the nation's 7.4%. The village's equalized assessed valuation (EAV) decreased 19.5% to $1.04 billion in 2013, from $1.29 billion in 2009. Estimated market value is $3.11 billion. The village's tax base is very diverse, in our view, with the 10 largest taxpayers accounting for only 9.7% of EAV.

Very strong budgetary flexibility

The village's budgetary flexibility is very strong, with $23.4 million of available reserves -- measured in terms of the unassigned general fund balance -- equal to 115% of combined general fund and dispatch center fund expenditures for fiscal 2014 (April 30). We view the magnitude of available reserves, at over 75% of expenditures, to be an additional credit strength.

Strong budgetary performance

Budgetary performance is strong. The village reported a fiscal 2014 combined general and dispatch center fund surplus after transfers, excluding an $1.485 million par amount of refunded bonds, of $855,000 (4.2% of expenditures). The village also reported a $1.66 million (7.7%) surplus before transfers for total governmental funds. Management reports that the village structured its 2015 general fund budget with a $156,000 shortfall after transfers, and that it now projects that the village will report a general fund surplus of up to $600,000. Management further reports that the village may use up to $1 million of its reserves in fiscal 2015 to refund bonds with cash.

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 58% of general revenues in fiscal 2014, while most of the rest was provided by state income tax distributions (13%), utility taxes (7.5%), and telecommunication taxes (7%). Sales tax revenues have been stable between fiscal years 2004 and 2014, ranging from $9.15 million to $10.77 million. Sales tax revenue fell 11.7% during the recession from fiscal 2008 to 2010 before increasing 17.7% from 2010 to 2014. The village board approved a 0.25% sales tax increase starting 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.

Very strong liquidity

Supporting the village's finances is liquidity that we consider very strong, with $24.9 million of unrestricted government cash and short-term investments held at fiscal year-end 2014 by the governmental and business-type funds, equal to 115% of adjusted total governmental fund expenditures and over 13x total governmental funds debt service. In addition, we believe the village has strong access to external liquidity because of its recent history of issuing GO bonds.

Strong management conditions

We consider management conditions strong with "good" financial policies and practices under our Financial Management Assessment (FMA). An FMA of "good" indicates our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. The village reports to the village board on budget-to-actual performance and investments monthly. 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 debt and contingent liability profile

The village's debt and contingent liability profile is strong, with governmental funds debt service equal to 8.6% of fiscal 2014 total governmental fund expenditures, and net direct debt at 102% of fiscal 2014 total governmental funds revenue. Including overlapping debt, overall debt is 2.8% of market value. Amortization of direct debt is very rapid, with 68% of GO bonds scheduled to mature in 10 years. Management reports that the village may issue about $6 million of GO bonds by 2017.

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 81.5% as of Dec. 31, 2013. 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, 2013, 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 only subsidizes retiree health care for a small number of retirees. Required pension contributions and retiree health care costs, including implicit rate subsidies, in fiscal 2014 amounted to $2.1 million, or 9.5% of adjusted total governmental funds expenditures.

Strong Institutional Framework

We consider the Institutional Framework score for Illinois home-rule municipalities strong.

Outlook

The stable outlook reflects our expectation that we will not revise the GO bond rating over the next two years because we believe that management will take the steps necessary to 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 rating 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
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of November 26, 2014)		
Vernon Hills GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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