

## ISSUER COMMENT

13 February 2018

### RATING

#### General Obligation (or GO Related) <sup>1</sup>

Aaa No Outlook

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## Village of Vernon Hills, IL

### Annual Comment on Vernon Hills

#### Issuer Profile

The Village of Vernon Hills is located in Lake County in northeastern Illinois, approximately 10 miles southwest of Waukegan and 30 miles northwest of Chicago. Lake County has a population of 702,898 and a high population density of 1,571 people per square mile. The county's median family income is \$93,668 (1st quartile) and the October 2017 unemployment rate was 4% (3rd quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are manufacturing, retail trade, and administrative/waste management services.

#### Credit Overview

Vernon Hills has a superior credit position, and its Aaa rating is well above the US cities median of Aa3. The notable credit factors include a very strong financial position, a very strong wealth and income profile and a solid tax base. The credit position also reflects an exceptionally light debt burden and a somewhat inflated pension liability.

**Finances:** The village's financial position is robust and is in line with the assigned rating of Aaa. The fund balance as a percent of operating revenues (94.3%) is far superior to the US median. However, this metric declined between 2013 and 2017. In addition, Vernon Hills' cash balance as a percent of operating revenues (92.8%) is far stronger than other Moody's-rated cities nationwide. As a home rule entity, the village has strong revenue raising flexibility.

**Economy and Tax Base:** The village has a very healthy economy and tax base, which is largely in line with its Aaa rating. The median family income equals a robust 166.7% of the US level. Moreover, the full value per capita (\$131,594) is much stronger than the US median, and remained stable between 2013 and 2017. Lastly, the total full value (\$3.5 billion) is considerable compared to other Moody's-rated cities nationwide.

**Debt and Pensions:** Vernon Hills' debt and pension burdens are manageable overall. The village's net direct debt to full value (0.6%) is below the US median, and remained the same from 2013 to 2017. However, the Moody's-adjusted net pension liability to operating revenues (2.3x) is unfavorably above the US median.

**Management and Governance:** Illinois cities have an Institutional Framework score <sup>3</sup> of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Revenue-raising ability is moderate overall but varies considerably. Home rule entities have substantial revenue-raising authority. Non-home rule entities are subject to tax rate limitations. Total operating tax yield for non-home rule entities subject to the Property Extension Limitation Law (PTELL) is capped to the lesser of 5% or CPI growth, plus new construction. Revenue predictability is

moderate, with varying dependence on property, sales, and state-distributed income taxes. Expenditures are moderately predictable but cities have limited ability to reduce them given strong public sector unions and pension benefits that enjoy strong constitutional protections.

## Sector Trends - Illinois Cities

Illinois cities (a sector that includes cities, towns, and villages) face uncertainty stemming from the state's budgetary challenges. Proposals have been made to cut income tax distributions to cities and to freeze property tax revenues. Property valuations in the northern part of the state are beginning to rebound following substantial declines, though recovery continues to lag in some areas of the Chicago metro area. Downstate valuations have remained largely stable in recent years. Many cities are facing increased fixed costs arising from growing pension liabilities.

EXHIBIT 1

### Key Indicators <sup>4</sup> <sup>5</sup> Vernon Hills

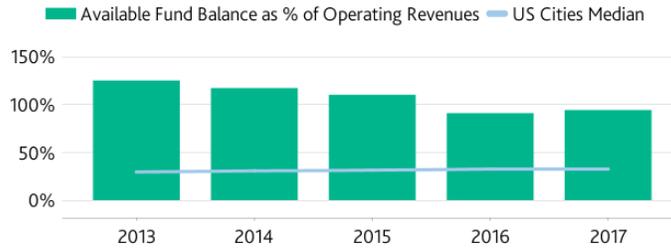
	2013	2014	2015	2016	2017	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$3,292M	\$3,115M	\$3,104M	\$3,239M	\$3,464M	\$1,787M	Improved
Full Value Per Capita	\$130,019	\$122,015	\$120,495	\$123,113	\$131,594	\$88,380	Stable
Median Family Income (% of US Median)	166%	164%	167%	167%	167%	113%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	125.1%	117.2%	110.2%	91.0%	94.3%	32.5%	Weakened
Net Cash Balance as % of Operating Revenues	101.7%	102.3%	98.3%	90.1%	92.8%	35.4%	Weakened
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	0.7%	0.7%	0.7%	0.7%	0.6%	1.2%	Stable
Net Direct Debt / Operating Revenues	1.21x	1.04x	1.07x	0.87x	0.78x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.8%	1.0%	1.3%	1.6%	1.8%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.33x	1.54x	1.86x	1.99x	2.27x	1.46x	Weakened
	2013	2014	2015	2016	2017	US Median	
<b>Debt and Financial Data</b>							
Population	25,325	25,535	25,768	26,314	26,328	N/A	
Available Fund Balance (\$000s)	\$24,255	\$23,617	\$23,391	\$24,085	\$25,890	\$7,221	
Net Cash Balance (\$000s)	\$19,702	\$20,621	\$20,871	\$23,836	\$25,485	\$7,930	
Operating Revenues (\$000s)	\$19,382	\$20,149	\$21,224	\$26,465	\$27,467	\$21,262	
Net Direct Debt (\$000s)	\$23,415	\$20,980	\$22,790	\$22,950	\$21,535	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$25,782	\$31,019	\$39,563	\$52,663	\$62,357	\$29,896	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

EXHIBIT 2

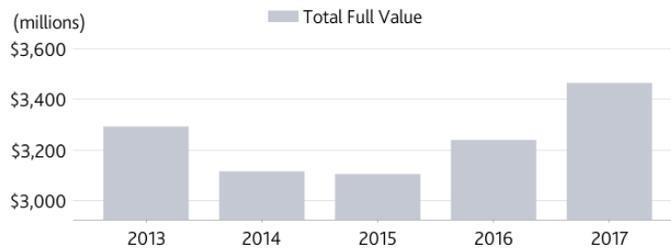
Available fund balance as a percent of operating revenues decreased from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

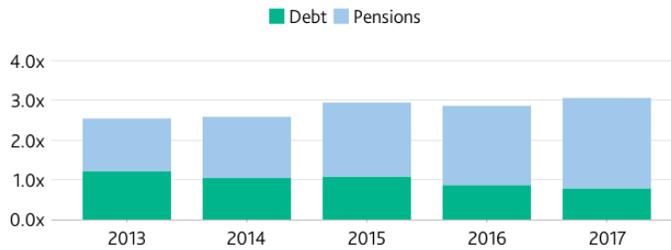
Full value of the property tax base increased from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax Base Growth Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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REPORT NUMBER 1106088