S&P Global
Ratings

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Summary:

Vernon Hills Village, Illinois; General Obligation

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Credit Profile		
US$20.7 mil taxable GO bnds ser 2017 due 03/30/2037		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Vernon Hills Village, Ill.'s series 2017 general obligation (GO) 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 2017 bond proceeds to finance the village's Milwaukee Avenue/Townline Road Redevelopment project area.

Vernon Hills' bonds are eligible for a rating above the sovereign because we believe the village can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," (published Nov. 19, 2013, on RatingsDirect), we consider state and local governments to have moderate sensitivity to country risk. The village's unlimited ad valorem tax is the primary source of security on the bonds, which significantly limits the possibility of negative sovereign intervention in the payment of debt or operations of the village. The institutional framework in the nation is predictable for villages, allowing them significant autonomy and independent treasury management; there has been no history of government intervention. Moreover, the village's very strong general fund balance as a percent of expenditures demonstrates its financial flexibility.

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 methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2016 of 94% of operating expenditures;
- Very strong liquidity, with total government available cash at 101.2% of total governmental fund expenditures and 19.7x governmental debt service, and access to external liquidity that we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 5.2% of expenditures and net direct debt that is 167.6% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Vernon Hills' economy very strong. The village, with an estimated population of 25,984, is located in

Lake County in the Chicago-Naperville-Elgin 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 $124,572. Overall, the village's market value grew by 4.3% over the past year to $3.2 billion in 2016. The county unemployment rate was 5.5% in 2015.

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. Major employers in the village include:

- Westfield Hawthorn (regional shopping mall, 2,500 employees);
- Mitsubishi Electric Automation, Inc. (Industrial Controls Corporate Headquarters, 400); and
- American Hotel Register Co. (Hotel Hospitality Supply Sales, 400).

There are additional major employers in the area including the Great Lakes Training Center (military, 11,000), Gurnee Mills (shopping center, 5,000), and Six Flags Great America (amusement park, 4,550).

Management reports that the village continues to see new commercial and industrial development. Given steady-to-increasing historical permit and fees revenues, we expect the village's tax base will remain strong.

Strong management

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

Elements of the village's policies and practices include:

- Realistic and well-grounded assumptions when setting the annual budget;
- Monthly budget-to-actual monitoring with reports given to the board;
- Use of a formal long-term financial projection that is updated and presented annually to the board;
- Use of a formal long-term capital plan that is updated and presented annually to the board;
- Formal investment management policy coupled with monthly investment reports given to the board;
- Lack of a formal debt management policy; and
- Formal fund balance policy which calls for available reserves to be 67% of general fund expenditures. The village continues to be compliant with this policy.

Strong budgetary performance

Vernon Hills' budgetary performance is strong in our opinion. The village had operating surpluses of 9.3% of expenditures in the general fund and of 8% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2016 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 53% of general revenues in fiscal 2016, while most of the rest was provided by the home rule sales tax (12%), state income tax distributions (10%), and utility taxes (5%). Sales tax revenues have steadily grown from fiscals 2007 through 2016, increasing from $11 million in 2007 to $14 million in 2016.

For our analysis, we have combined the village's dispatch center fund into the general fund, adjusted bond-financed expenditures and adjusted for routine transfers. The village's very strong performance result in fiscal 2016 (9.3% general fund surplus or $2.3 million surplus) was largely attributable to new sales tax revenues and existing sales taxes that came in better than budgeted. The village board approved a 0.25% home rule sales tax in January 2015 which resulted in the first full year of collections in fiscal 2016. Because of this, fiscal 2016 home rule sales tax revenues totaled $3.2 million. Additionally, sales tax revenue increased by $4 million because fiscal 2016 was the first full year that sales tax revenues were stated as gross revenue and not offset by prior economic incentive payments.

Management has provided fiscal 2017 general fund projections which indicate a slight general fund drawdown ranging from $300,000 to $400,000. Management indicates there are various capital projects funded out of the general fund that we would likely adjust to get a clearer picture of routine operations in fiscal 2017. While we expect a near-breakeven or positive result in fiscal 2017, the performance results are not likely to be as strong as fiscal 2016. The fiscal 2018 general fund budget is expected to be adopted as a balanced budget. Given historical trends and management's willingness to adjust revenues and expenditures, we expect the village's performance to remain at least strong.

Very strong budgetary flexibility

Vernon Hills' budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2016 of 94% of operating expenditures, or $23.9 million. We expect the available fund balance to 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. Given management's expectation to slightly draw on cash by $400,000 in fiscal 2017, we expect the village's flexibility to remain very strong.

Very strong liquidity

In our opinion, Vernon Hills' liquidity is very strong, with total government available cash at 101.2% of total governmental fund expenditures and 19.7x governmental debt service in 2016. 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.

Weak debt and contingent liability profile

In our view, Vernon Hills' debt and contingent liability profile is weak. Total governmental fund debt service is 5.2% of total governmental fund expenditures, and net direct debt is 167.6% of total governmental fund revenue.

Given the sizable series 2017 issuance, the village's debt profile has deteriorated in our view because its overall net debt as a percentage of market value is higher than 3%, and its amortization schedule of all outstanding GO debt fell below 65% over 10 years. We view this deterioration as marginal, and with a growing tax base and good debt management, the village could regain positive aspects of its debt profile. The village indicates it may issue approximately $2 million to $3 million of GO debt for street improvements; however, we do not expect this issuance to negatively affect the debt profile.

Vernon Hills' combined required pension and actual other postemployment benefits (OPEB) contributions totaled 8.6% of total governmental fund expenditures in 2016. Of that amount, 8% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The village made its full annual required pension contribution in 2016.

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 80% as of the fiscal 2016 audit. The IMRF plan's net pension liability totaled $5.7 million as of the fiscal 2016 audit.

The police are covered by a single-employer defined-benefit pension plan, to which the village paid 100% of its APC over the past five audited fiscal years. As of April 30, 2016, the police plan was 69% funded, which reflects an assumed 6% investment rate of return. The police plan's net pension liability totaled $18 million as of the fiscal 2016 audit. The village has until the year 2040 to fund 90% of the past service cost for the Police Pension Plan. However, the village has adopted a pension funding policy that funds 100% of the past service cost on a closed basis by the year 2040. We view this result as achievable given the village's revenue raising flexibility.

The 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.

Strong institutional framework

The institutional framework score for Illinois home-rule cities and villages is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that it will likely not change the rating over the next two years because it expects 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.

Ratings Detail (As Of April 19, 2017)		
Vernon Hills		
Long Term Rating	AAA/Stable	Affirmed
Vernon Hills Vill GO bnds (Alternate Rev Source) ser 2006 dtd 12/01/2006 due 03/30/2008-2020 2022 2024 2026		
Long Term Rating	AAA/Stable	Affirmed
Vernon Hills GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.