

MOODY'S

INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO THE VILLAGE OF VERNON HILLS' (IL) GO BONDS, SERIES 2012A AND 2012B

Global Credit Research - 26 Jan 2012

Aaa RATING APPLIES TO \$19.2 MILLION IN POST-SALE GO DEBT

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

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2012A	Aaa
Sale Amount \$8,040,000	
Expected Sale Date 01/31/12	
Rating Description General Obligation	
General Obligation Bonds, Series 2012B	Aaa
Sale Amount \$1,645,000	
Expected Sale Date 01/31/12	
Rating Description General Obligation	

Moody's Outlook N/A

Opinion

NEW YORK, January 26, 2012 --Moody's Investors Service has assigned a Aaa rating to the Village of Vernon Hills' (IL) \$8 million General Obligation Bonds, Series 2012A and \$1.6 million General Obligation Bonds, Series 2012B. Concurrently, Moody's has affirmed the Aaa on the village's outstanding general obligation debt, affecting \$19.2 million post-sale.

SUMMARY RATING RATIONALE

The bonds are ultimately secured by the village's general obligation unlimited tax pledge. Proceeds from the bonds will long-term finance the district's outstanding Taxable Subordinate Lien Tax Increment Revenue Notes Series 2008A, 2008B and 2010 per the original finance plan. The notes were originally issued to finance infrastructure development in the village's Towncenter Tax Increment Finance (TIF) district. The village expects to pay debt service on the bonds with TIF revenues generated in the district. The highest Aaa rating incorporates the village's sizable tax base located near Chicago with a rebounding commercial sector; strong financial operations with ample liquidity; and low direct debt that is fully supported by non-property tax revenues.

STRENGTHS

-Healthy reserves with ample liquidity

- Strong management and fiscal discipline
- Recent attainment of home-rule status, unlimited revenue raising flexibility

WEAKNESSES

- Financial operations dependent on economic sensitive revenues, lack of property taxes
- Delay in TIF development
- Substantial amount of TIF debt outstanding

DETAILED CREDIT DISCUSSION

SIZABLE TAX BASE LOCATED NEAR CHICAGO; REBOUNDED COMMERCIAL SECTOR

The village's sizeable \$3.7 billion taxbase is expected to remain stable given recent commercial & retail developments. The village is located northwest of Chicago (GO rated Aa3/stable outlook) and residents benefit from surrounding employment centers. Largely residential (71.5%), the village has a sizable commercial presence (28.5%) and serves as a retail destination for surrounding communities in suburban Lake County (GO rated Aaa). Westfield Shoppingtown Hawthorn mall is the largest property taxpayer in the village and anchored by Sears (issuer rating B3/negative), Carson Pirie, JC Penny's, and Macys (Baa3/stable). The mall is also the village's largest employer with 2,500 employees. More recently, the village's commercial and retail sector has rebounded after several closures a few years ago. Several large retailers, including Circuit City, Linens & Things, Home Expo, and Tweeter's closed stores in the village. Notably, all the spaces have been re-occupied by other retailers including Tiger Direct, Petsmart, Steinhafel's and other smaller retail stores and restaurants. Due to the aforementioned closures, the village's taxbase and sales tax revenues experienced declines. The village's taxbase declined by 3.4% in 2010, but is still growing at a modest average annual rate of 2.5% over the past five years. Officials expect additional retail and commercial development in the near-term which will help increase valuations.

The village's population has grown significantly in the past few decades, more than doubling since 1990. The village attained home-rule status in the summer of 2011 to a current population of 25,113. Socioeconomic indicators exceed state medians with per capita money income at 139.3% and median household income at 157.8% of the state, between 2005 and 2009. Lake County unemployment levels (8.6% in November 2011) have historically fallen below the state (9.4% during the same period).

STRONG FINANCIAL OPERATIONS WITH AMPLE RESERVES; PROVIDES SIGNIFICANT CUSHION AGAINST ECONOMICALLY SENSITIVE REVENUES

Despite reliance on non-property tax revenues, the village's financial operations are expected to remain healthy given ample liquidity, prudent fiscal management, and home-rule status. The recent designation of as a home-rule unit of government affords the village unlimited revenue raising flexibility. The village continues to maintain very healthy reserves above a 100% of revenues over the past few years despite declining revenue streams. In fiscal 2010, reflecting weak sales tax revenues, the village utilized approximately \$2 million of General Fund reserves, but still ended the year with balance of \$19.9 million, or a strong 113.2% of revenues. As revenues were becoming pressured, officials implemented significant expenditure reductions which included the elimination of 30 positions through attrition, consolidation of several departments, early retirement, reduction of capital projects, and overall departmental cuts. As a result, in fiscal 2011, the General Fund posted a \$2.3 million surplus. Fiscal 2011 closed with a General Fund balance of \$22.2 million (112.3% of revenues) and a cash balance of \$19.5 million (98.3%). The aforementioned expenditure cuts generated savings that are expected to carry forward. For fiscal 2012, the village passed a balanced budget and officials report positive operations year-to-date. Though the village does not have a formally codified fund balance policy, officials cite an informal target to maintain reserves at a minimum of 67% of current year's expenditures.

The village does not levy property taxes and is significantly reliant on sales tax revenues and other economically sensitive revenue streams. Sales tax revenues accounted for 47.7% and other taxes, which include telecommunications, 911, hotel & motel taxes, accounted for 15.3% of General Fund revenues. Sales tax revenues fell by a considerable 9.6% in fiscal 2009 due to the loss of several large retailers. Sales tax revenues increased by 5.7% in 2010 but fell again in 2011 by 6.2%. The village budgeted for a 2% decline for fiscal 2012, however, notably sales tax revenues are tracking positively. The village's dependence on sales tax revenues is mitigated by ample reserve levels and unlimited revenue raising flexibility as a home-rule entity. Officials do not plan to increase revenues to keep the village's sales tax rate competitive. However, the village's operations are expected to remain strong given the demonstrated willingness to reduce expenditures and overall strong fiscal management.

LOW DEBT BURDEN FULLY SUPPORTED BY NON-PROPERTY TAX REVENUES

The village's direct debt burden is minimal at 0.7%. The village's overall debt burden is moderate at 2.6%, incorporating approximately \$70 million of overlapping debt from other municipalities, indicative of the population growth that the area is experiencing. Favorably, all of the village's direct debt is paid from alternate revenues including sales tax and TIF revenues. The village's sales tax base reflects a region considerably larger than the village's own population, thereby mitigating the burden on local residents. Notably, the property tax levy for the debt is abated only after sufficient funds are on hand to pay debt service, which eases concerns normally associated with alternate revenue supported debt. Amortization is average with 70% of principal repaid in ten years.

In addition to general obligation debt, the village has \$7 million in non-rated TIF revenue debt outstanding, originally issued in 2007. The village expects to refinance the 2007 TIF debt through a combination of long-term GO debt and cash in fiscal 2016. Officials have no plans to issue new debt as the village has historically cash financed capital improvement projects. All of the village's outstanding debt is in fixed rate mode and village is not party to any derivative agreements.

What could change the rating - DOWN

- Significant structural imbalance in the General Fund leading to material declines in fund balance and liquidity
- Deterioration of the village's tax base and demographic profile

KEY STATISTICS:

2010 Population (census): 25,113 (24.8% increase from 1990)

2010 Full valuation: \$3.7 billion

Full value per capita: \$148,966

2005-2009 Per capita money income: 139.3% of state

2005-2009 Median household income: 157.8% of state

Lake County unemployment rate (November 2011): 8.6% (State of Illinois: 9.4%)

Overall debt burden: 2.7% (direct: 0.7%)

Amortization of principal (10 years): 70%

Fiscal 2011 General Fund balance: \$22.2 million (112.3% of General Fund revenues)

Fiscal 2011 Percentage of operating revenues derived from sales taxes: 47.7%

Post-sale TIF revenue debt outstanding: \$7 million (non-rated)

Post-sale GO debt outstanding: \$19.2 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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