

RatingsDirect®

Summary:

Downers Grove, Illinois; General Obligation

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Credit Profile

US\$7.77 mil GO rfdg bnds ser 2016 dtd 03/16/2016 due 03/28/2016

<i>Long Term Rating</i>	AAA/Stable	New
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Downers Grove Vill GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Downers Grove Vill GO

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Downers Grove Village, Ill.'s series 2016 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the village's existing GO debt. The outlook is stable.

The series 2016 bonds are secured by the village's unlimited ad valorem tax GO pledge. Bond proceeds will be used to advance refund a portion of the village's series 2008A GO bonds for interest cost savings.

The village's GO bonds are eligible to be rated above the sovereign because we believe Downers Grove can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013 on RatingsDirect), U.S. local governments are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of federal government intervention. The village demonstrates financial flexibility with its very strong budgetary flexibility and liquidity and locally sourced operating revenues.

The rating reflects our assessment of the following factors for the village, including its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance which closed with a slight operating surplus in the general fund after accounting for one-time expenditures, but an operating deficit at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 at 41% of adjusted operating expenditures;
- Very strong liquidity, with total government available cash at 67.5% of total governmental fund expenditures and 6.7x governmental debt service, as well as access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 10.7% of expenditures, net direct debt at 113.9% of total governmental fund revenue, and a large pension and other postemployment benefit

(OPEB) obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3% of market value; and

- Strong institutional framework score.

Very strong economy

We consider Downers Grove's economy very strong. The home-rule village in DuPage County, approximately 23 miles southwest of Chicago's Loop, has an estimated population of 48,740. It is in the Chicago-Naperville-ElginMSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 154% of the national level and per capita market value of \$128,754. Overall, market value was roughly flat over the past year and was \$6.3 billion in 2014 (including tax-increment value). The county unemployment rate was 5.6% in 2014.

Roughly 76% of the tax base is residential. After several years of valuation declines, the tax base remained flat in 2014 and is expected to increase 4% in the upcoming year due to a rebounding residential market. Management reports high building permit activity and several local business expansions.

Very strong management

We view the village's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions and the use of historical data when formulating the budget. Other highlights include management's monthly reporting to the village board on budget-to-actual performance and investment holdings. The village has a long-term financial plan and a capital improvement plan (CIP) that is updated annually and shared with the board. The CIP includes cost estimates and funding sources. The village maintains formal reserve, investment, and debt policies. Its fund balance policy is to maintain an available general fund balance of between two and four months of expenditures, a level it has historically met.

Adequate budgetary performance

Downers Grove's budgetary performance is adequate, in our opinion. It had slight surplus operating results in the general fund at 1.2% of expenditures, and a deficit result across all governmental funds of 5.5% in fiscal 2014.

In fiscal 2014 (Dec. 31), the village had one-time expenditures of roughly \$3.8 million that we accounted for in our assessment of performance. The total governmental funds deficit primarily reflected the capital improvements and debt service funds. The fiscal 2015 general fund budget was balanced and management currently estimates a roughly \$1.2 million (2.7%) surplus. Management attributes this surplus to better-than-anticipated building permit and sales tax revenue. For the total governmental funds, we expect continued slight deficits due mainly to capital projects and spending of accumulated reserves in those funds. In fiscal 2016, the village budgeted for a break-even result in the general fund and we expect total governmental funds to be status quo. Intergovernmental revenues (mostly state-shared income and sales taxes) accounted for 40% of general fund revenues, followed by property taxes at 26% in fiscal 2014.

Very strong budgetary flexibility

Downers Grove's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 at 41% of operating expenditures, or \$17.2 million. We expect the available fund balance to remain above 30% of expenditures

for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 42% of expenditures in 2013 and 42% in 2012.

The village benefits from its status as home-rule, allowing for ample flexibility over its revenues and expenditures. We do not anticipate our view of its budgetary flexibility changing in the near future.

Very strong liquidity

In our opinion, Downers Grove's liquidity is very strong, with total government available cash at 67.5% of total governmental fund expenditures and 6.7x governmental debt service in 2014. In our view, the village has strong access to external liquidity if necessary.

The village had roughly \$44.3 million in available cash at fiscal year-end 2014 that did not include unspent bond proceeds. Additionally, we have based our assessment of its strong access to external liquidity on its frequent issuances of GO debt over the last 15 years. The village has a \$2.43 million direct-purchase with JP Morgan Chase issued in 2013, but we do not consider it a contingent liability or liquidity risk, and we expect the liquidity profile will remain very strong.

Very weak debt and contingent liability profile

In our view, Downers Grove's debt and contingent liability profile is very weak. Total governmental fund debt service is 10.1% of total governmental fund expenditures, and net direct debt is 113.9% of total governmental fund revenue. Overall net debt is low at 2.3% of market value, which is, in our view, a positive credit factor.

We did not include self-supporting GO debt paid from the village's enterprise funds in the debt profile. The village intends to obtain an additional \$18.31 million in loans from the Illinois Environmental Protection Agency through 2020, paid by net revenues from the waterworks system, which we do not expect to weaken our view of the overall debt profile.

In our opinion, a credit weakness is Downers Grove's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. Downers Grove's combined required pension and actual OPEB contributions totaled 12.0% of total governmental fund expenditures in 2014. Of that amount, 11.4% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The village made 101% of its annual required pension contribution in 2014. The funded ratio of the largest pension plan is 55.1%.

The village contributes to three defined-benefit pension plans, the Illinois Municipal Retirement Fund (IMRF), an agent multiemployer public employee retirement system, and the Police Pension Plan and the Firefighters' Pension Plan, which are single-employer pension plans. The village contributed 100% of its annual required contribution (ARC) to IMRF, 101% of its ARC for the Police Pension Plan, and 101% of its ARC for the Firefighters' Pension Plan in 2014. The IMRF is currently funded at a rate of 81.4%, the Police Pension Plan is 55.1% funded, and the Firefighters' Pension Plan is 56.9% funded. In 2014, the village contributed 81.2% of its annual OPEB cost and the plan is 0% funded.

Strong institutional framework

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

Outlook

The stable outlook reflects our expectation that we will not change the rating over the two-year horizon because we anticipate that the village will continue to benefit from its very strong economy, budgetary flexibility, and liquidity, all supported by very strong management. However, should it report weaker budgetary performance or pension pressures begin to affect its financial position more than currently anticipated, we could lower the rating.

Related Criteria And Research

Related Criteria

- . USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

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

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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