

New Issue: Moody's assigns Aaa to Lake Forest, IL's \$10M GO Bonds, Ser. 2015

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Aaa rating applies to \$59.8M of post-sale GO debt

LAKE FOREST (CITY OF) IL
Cities (including Towns, Villages and Townships)
IL

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2015	Aaa
Sale Amount \$10,000,000	
Expected Sale Date 07/29/15	
Rating Description General Obligation	

Moody's Outlook NOO

NEW YORK, July 24, 2015 --Moody's Investors Service has assigned a Aaa rating to the City of Lake Forest IL's \$10.0 million General Obligation (GO) Bonds, Series 2015. Concurrently, Moody's maintains the Aaa rating on the city's outstanding general obligation unlimited tax (GOULT) debt. Post sale, the city will have \$59.8 million of GOULT debt outstanding.

SUMMARY RATING RATIONALE

The Aaa rating incorporates the city's large and affluent tax base; strong financial operations highlighted by sound reserves and significant operating flexibility; favorable debt profile; above average unfunded pension liabilities.

OUTLOOK

Outlooks are generally not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO DOWN

- Substantial deterioration of the city's tax base and/or socioeconomic profile
- Material declines in liquidity and/or fund balances
- Significant increase in the city's debt burden or unfunded pension liabilities

STRENGTHS

- Large tax base with high income indices
- Strong financial operations supported by ample reserves
- Broad financial flexibility afforded by the city's home rule status

CHALLENGES

- Exposure to economically-sensitive sales and income tax revenues
- Above average unfunded pension liabilities

RECENT DEVELOPMENTS

Recent developments have been incorporated into the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE RESIDENTIAL TAX BASE IN SUBURBAN CHICAGO CHARACTERIZED BY HIGH WEALTH INDICES

Lake Forest's large \$6.8 billion tax base is expected to stabilize following years of valuation decline given recent favorable trends in high quality residential properties and the city's favorable location within the Chicago (Ba1 negative) metropolitan area. Lake Forest is located in Lake County (Aaa), north of Chicago, and benefits from ease of access to downtown Chicago and surrounding suburban communities. Tax base valuations have recently stabilized following years of declines, as evidenced by a negligible 0.1% drop in assessment year 2014. The stabilization is largely attributable to increased economic activity and some appreciation of the city's high-end residential stock.

The city's largest employer, Lake Forest Hospital (1,600), has begun construction of a new \$200 million facility that is expected to be completed by 2017. Officials also report increased residential activity, as city council recently approved a tentative plat and preliminary site plan for a 164 unit subdivision. Lake County's March 2015 unemployment rate of 5.8% was below that of the state (6.3%), yet slightly higher than national (5.6%) rates for the same time period. The city's median family income, which totaled 254% of the nation, far outpaces the national average, according to the 2008-2012 US Census American Community Survey estimates.

FINANCIAL OPERATIONS AND RESERVES: STRONG FINANCIAL PROFILE MARKED BY HEALTHY RESERVES

The city's financial position is expected to remain strong over the near-term due to healthy reserve levels and considerable financial flexibility granted by its home rule authority. The city concluded fiscal 2014 with a \$2.9 million General Fund surplus. The favorable results increased available operating fund (combined General and Debt Service funds) reserves to \$14.5 million and a substantial 41.4% of operating fund revenues. The city budgeted for a \$800,000 surplus in fiscal 2015, but expects to end the year with a larger \$2.0 million surplus. The unaudited surplus was the result of conservative budgeting for personnel expenditures and favorable variances in numerous revenue streams. The city has conservatively budgeted for balanced operations in fiscal 2016. The city's recently amended fund balance policy, calls for the maintenance of reserves above 35% of General Fund revenues.

Property taxes account for the largest portion of city operating fund revenues, reaching 53% in fiscal 2014. While the city is also moderately reliant on economically sensitive sales tax (9%) and income tax (6%) receipts, the risk is largely offset by the financial flexibility afforded by the city's designation as a home-rule unit of government. Lake Forest also remains minimally exposed to state budget woes, as the proposed cuts to state shared income receipts would result in a 3% reduction in total operating fund revenues. As a home-rule government, the city could implement a variety of revenue enhancements (including property, sales, utility, and food and beverage taxes) with council approval to offset aforementioned revenue loss.

Liquidity

Net cash within city operating funds totaled \$16.2 million and an ample 46.3% of operating fund revenues, at the close of fiscal 2014. Similar levels of liquidity are expected to be maintained over the near-term.

DEBT AND PENSION LIABILITIES: MODEST DEBT BURDEN; ABOVE AVERAGE PENSION LIABILITIES

The city's debt burden is expected to remain manageable due to modest direct debt obligations and limited borrowing plans over the near-term. At 0.6% of full value, the city's debt burden is modest. The city's overall debt burden is moderate at 1.8% of full value and is inclusive of all GO debt reported by overlapping entities. Debt service expenditures accounted for a manageable 8% of total operating fund expenditures in fiscal 2014. Future borrowing plans are limited and include the issuance of debt for the improvements to its of its water treatment facility in fiscal 2018. The size of the debt issuance is currently estimated at \$9.3 million and debt service is likely to be repaid by net revenues of the water enterprise.

Debt Structure

All of the city's debt is fixed rate and amortizes over the long-term. An average 63% of principal is set to be retired over the next ten years.

Debt-Related Derivatives

The city has no derivative exposure.

Pensions and OPEB

The city has an above average employee pension burden, based on unfunded liabilities for its participation in three plans, a multi-employer agent plan administered by the state and two single-employer public safety plans. Reported unfunded pension liabilities consist of \$20.6 million for the city's single-employer police pension fund, \$9.5 million for the single-employer fire pension fund and \$12.0 million for the city's portion of the Illinois Municipal Retirement Fund (IMRF) as of December 31, 2014. Together, these reported liabilities amount to \$42.1 million. Moody's fiscal 2014 adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is \$91.5 million or an elevated 2.6 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace city's reported liability information, but to improve comparability with other rated entities.

MANAGEMENT AND GOVERNANCE: HOME RULE STATUS PROVIDES SIGNIFICANT FINANCIAL FLEXIBILITY

Illinois cities have an institutional framework score of 'A' or moderate. Cities are dependent on property and sales taxes, with largely predictable expenditures. However, cities may be exposed to declining state aid payments if shared income tax receipts fall following the expiration of the temporary statewide income tax rate increase in January 2015. Enterprise risk varies across the sector, with some cities exposed to contingent liabilities associated with arenas and convention centers, for example. Pension liabilities range from significant to manageable, with the majority of Illinois cities meeting annual ARC payments. The institutional framework score for Illinois cities does not factor in cities with home rule designation, which has been conferred on Lake Forest. The status greatly increases a city's ability to raise revenues and positively impacts a city's credit quality. Illinois home rule units of government have the broad legal authority to enact and increase various taxes and fees absent voter approval.

Lake Forest benefits from prudent management practices and strong financial policies. To guard against the potential pressures resulting from continued instability at the state level, officials recently increased the city's minimum fund balance policy from 25% of operating revenues to 35%. In addition, officials recently enacted a new sanitation fee that is expected to generate \$620,000 annually. The fee will be used to fund future capital needs; however, management could elect to use the additional revenues for operations should it so choose.

KEY STATISTICS

- Estimated full valuation: \$6.8 billion
- Estimated full valuation per capita: \$348,808
- Estimated median family income as % of the US: 254.0%
- Fiscal 2014 available operating fund balance / operating revenue: 41.4%
- 5-year change in available operating fund balance / operating revenue: 17.0%
- Fiscal 2014 operating net cash / operating revenue: 46.3%
- 5-year change in operating net cash / operating revenue: 15.0%
- Institutional framework score: A
- 5-year average operating revenue / operating expenditures: 1.04x
- Net direct debt burden: 0.6% of full valuation; 1.1 times operating revenue
- 3-year average Moody's adjusted net pension liability: 1.4% of full valuation; 2.7 times operating revenue

OBLIGOR PROFILE

Located 30 miles north of downtown Chicago, the City of Lake Forest encompasses a significant 17 square miles in Lake County. The city has a population of 19,375.

LEGAL SECURITY

Debt service on the bonds is secured by the city's GOULT pledge in which the full faith, credit and resources of the city are pledged, and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount.

USE OF PROCEEDS

Proceeds from the Series 2015 bonds will be used to fund various city projects, including infrastructure improvements in the city's Laurel Avenue tax increment financing district.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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