Village of Lake in the Hills
Press Release

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For Immediate Release

The Village of Lake in the Hills is pleased to share that Moody's Investors Service has maintained an Aa2 rating for the Village's upcoming issuance of General Obligation Bonds, Series 2019. Ratings in the Aa category indicate that obligations are determined to be of high quality and are subject to very low credit risk (scale and definitions provided on page two).

In the credit opinion, Moody's pointed to the Village's stable positioning for the future, as well as its strong financial history, as grounds for maintaining the Aa2 credit rating. In recent years, the village has reduced its expenditures through personnel reorganizations, established a new dedicated revenue source to fund capital expenditures, and had a drop off in debt service. As a result, the Village has successfully kept its property tax levy flat for nine consecutive years. At the close of fiscal 2018, the Village's operating funds (general and debt service) ended with an available fund balance of $11.7 million, up from $9.7 million in fiscal 2017.

Moody's analysts found positive outlooks in regards to the Village's debt and pension obligations. Including an upcoming bond issuance for the water main replacement project for the Village's unincorporated water customers, net direct debt of the village totals $2.2 million, equal to a very low 0.1% of full value and 0.1x revenue. This low debt burden is likely to remain a credit strength. The village also continues to exceed state minimum pension contribution levels, positioning Lake in the Hills to achieve 100% funding by 2030.

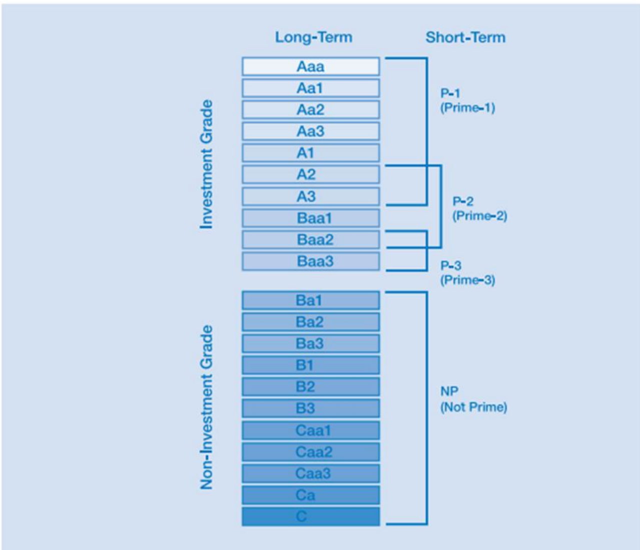
As a part of its continuous pursuit of financial health, the village has a policy to maintain at least 25% of prior year expenditures for its operational needs. Historically, the village has exceeded this amount. Modest withdrawals from reserves for capital projects over the next few fiscal years may be required, but draws are anticipated to keep the fund balance well in excess of the fund balance policy. The village's financial profile is healthy and expected to remain stable given conservative budgeting practices and revenue raising flexibility.

Moody's Investors Service provides expertise at the highest level in bond credit ratings, research, and risk analysis. The full text of the credit opinion is attached.

Rating Scale and Definitions

Moody's Rating Scale

The following is a ranking (from highest to lowest) of Moody's long-term and short-term categories. The indicated relationship between long-term and short-term ratings is approximate and may not necessarily apply in all situations.



Moody's Long-Term Rating Definitions

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are considered upper-medium-grade and are subject to low credit risk.
Baa	Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess speculative characteristics.
Ba	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
B	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery in principal and interest.
C	Obligations rated C are the lowest-rated class of bonds and are typically in default, with little prospect for recovery of principal and interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
10 October 2019

Rate this Research

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Lake In The Hills (Village of) IL

Update to credit analysis

Summary

Lake in the Hills, IL's (Aa2) credit characteristics include a large tax base with above average resident income levels located in the Chicago metropolitan area. The village has a history of stable financial operations with ample reserves and strong revenue raising flexibility because of its status as a home rule municipality. The village has a low debt burden. The pension burden is moderate though it exceeds national medians. The village contributes in excess of the state required minimum pension contributions sizing its contributions to achieve 100% funding by 2030.

Credit strengths

» Large tax base with above average resident income levels

» Strong financial operations with ample reserves

» Revenue raising flexibility as a home rule municipality

Credit challenges

» Overall leverage inclusive of overlapping entities is above average

» While the tax base is strong, wealth and size trail medians of higher rated entities in the sector

Rating outlook

Outlooks are generally not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

» Substantial expansion of the village's tax base or strengthening of resident wealth levels

» Moderation of overall leverage

Factors that could lead to a downgrade

» Deterioration of operating reserves or liquidity

» Growth in the village's debt or pension burden

Key indicators

Exhibit 1

Lake In The Hills (Village of) IL	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$1,740,535	$1,680,986	$1,725,656	$1,839,538	$1,945,690
Population	28,926	28,968	28,908	28,908	29,228
Full Value Per Capita	$60,172	$58,029	$59,695	$63,634	$66,569
Median Family Income (% of US Median)	138.3%	134.9%	134.0%	131.6%	131.6%
Finances					
Operating Revenue ($000)	$16,802	$16,982	$17,021	$17,601	$18,140
Fund Balance ($000)	$9,205	$9,736	$9,455	$9,654	$11,732
Cash Balance ($000)	$8,364	$8,764	$8,431	$8,802	$11,050
Fund Balance as a % of Revenues	54.8%	57.3%	55.6%	54.8%	64.7%
Cash Balance as a % of Revenues	49.8%	51.6%	49.5%	50.0%	60.9%
Debt/Pensions					
Net Direct Debt ($000)	$2,455	$1,740	$1,030	$320	$260
3-Year Average of Moody's ANPL ($000)	$27,937	$33,943	$42,298	$45,401	$45,595
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.1%	0.0%	0.0%
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.1x	0.0x	0.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.6%	2.0%	2.5%	2.5%	2.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.7x	2.0x	2.5x	2.6x	2.5x

Source: Audited financial statements, US Census Bureau, Moody's Investors Service

Profile

The Village of Lake in the Hills is located in McHenry County (Aaa), roughly 45 miles northwest of downtown Chicago (Ba1 stable). The village provides public safety (police), water, recreation, a municipal airport and other governmental services to roughly 29,228 residents.

Detailed credit considerations

Economy and tax base: large tax base in Chicago metropolitan area

The village's tax base and resident income levels are strong supported by it's location as an outer suburb of Chicago, but it's size and demographics currently trail medians of higher rated municipalities. Lake in the Hill's $2.1 billion tax base grew at an average rate of 3.5% over the past five years driven primarily by appreciation of existing property, though valuation still trails the pre-recession high of $2.5 million. Village officials expect modest tax base growth going forward spurred by new residential property. The village's tax base is primarily residential (90% of equalized assessed valuation) with a modest commercial (7% EAV) presence.

The village's easy access to multiple employment centers supports its strong resident income levels. Median family income estimated at 132% of the national median. Full value per capita of $70,746 is slightly weaker than the national figure of $88,913. As of April 2019, the unemployment rate for Lake in the Hills (3.2%) was below the state (3.8%) and the nation (3.8%).

Financial operations and reserves: healthy financial profile with strong revenue raising flexibility

The village's financial profile is healthy and expected to remain stable given conservative budgeting practices and revenue raising flexibility. At the close of fiscal 2018, the village's operating funds (general and debt service) ended with an available fund balance of $11.7 million or a strong 64.7% of operating fund revenue, up from $9.7 million in fiscal 2017. Village expenditures declined in fiscal 2018 because of personnel reorganizations, a new dedicated revenue source to fund capital expenditures and a drop off in debt service. Village officials project a surplus of $1 million for fiscal 2019 given underspending across various departments. The budgeting process is underway for fiscal 2020.

Property tax receipts are the largest revenue source for the village, accounting for 31% of fiscal 2018 operating revenue. Additional revenues are derived sales taxes (27% or operating revenue) both from the village's 1% home rule sales tax and share of state sales tax, with 16% of operating revenue from state shared income tax. Sales tax revenue has increased 31% since fiscal 2013. As a home rule unit of government, the village has multiple revenue-raising options available, including the ability to raise property taxes without limitation and to impose various other fees and taxes.

LIQUIDITY

The village's operating fund net cash position totals $11.1 million or a healthy 61% of operating revenue as of fiscal 2018. The village maintains healthy liquidity in the water and municipal airport funds, which in fiscal 2018 was equal to 853 days and 168 days cash on hand, respectively. Municipal airport operations consist of fuel sales and capital upkeep of facilities. We view the airport as posing minimal enterprise risk given it's very small size (revenues of $890,000 in fiscal 2018, equivalent to 5% operating revenues) and because it has very minimal debt of $260,000 outstanding.

Debt and pensions: Low debt and moderate pension burden

The village's low debt burden is likely to remain a credit strength. Including an upcoming issuance, net direct debt of the village totals $2.2 million, equal to a very low 0.1% of full value and 0.1x revenue. The pension burden is moderate with a three year adjusted net pension liability (ANPL) of $45.6 million, equal to 2.5x operating revenue and 2.2% of full value. The village’s fixed costs, inclusive of debt service, pension contributions and other post-retirement benefits are also moderate, totaling 10% of operating fund revenue in fiscal 2018.

DEBT STRUCTURE

All of the village's debt is fixed rate with a 10 year principal payout of 48%.

DEBT-RELATED DERIVATIVES

The village is not exposed to any debt-related derivatives

PENSIONS AND OPEB

The village has one single employer public safety pension plan and its non-public safety employees participate in the Illinois Municipal Retirement Fund (IMRF). The village’s public safety plan accounts for a majority of its ANPL. Although this plan is single employer, the village has no control over the benefits because they are established in state statute. The village's pension burden is more moderate than many Illinois cities in part because fire protection services are provided by a legally separate unit of government, Algonquin - Lake in the Hills Fire Protection District (Aa3) The fire protection district has a significant pension liability with a Moody’s three year adjusted net pension liability (ANPL) of $32.5 million, equivalent to 3.7x fire protection district operating revenue.

The village’s pension contributions amounted to 9.8% of its revenue in fiscal 2018. Lake in the Hills sizes its annual contributions to achieve 100% funding by 2030. The state requires cities to fund single employer public safety plans at a rate that will achieve a 90% funded ratio on a reported basis by 2040, which is a relatively weak contribution requirement. The village's contribution to the single employer plan exceeded the “tread water” indicator by $100,000, equivalent to 0.6% of revenue. The tread water indicator represents the contribution required to prevent growth in reported net pension liabilities, if plan assumptions hold. The 6.75% reported discount rate for public safety plan is modestly lower than to many other local government pension plans. A lower discount rate tends to push the tread water indicator upward.

OPEB obligations do not represent a material credit risk for the village. The village does not offer explicit OPEB benefits, but allows retired employees to stay on its healthcare plan, creating an implicit rate subsidy. The village made a $30,000 pay-as-you-go contribution to its OPEB plan in fiscal 2018, equal to 0.2% of operating revenue. The village’s reported net OPEB liability currently totals $803,000, while our adjusted net OPEB liability for the village, based on the use of a different discount rate, totals $794,000.

Management and governance: moderate institutional framework; significant legal revenue raising authority

Illinois cities have an Institutional Framework score of “A”, which is moderate. Revenue-raising ability is moderate overall but varies considerably. Non-home rule entities are subject to tax rate limitations. In addition, total operating tax yield for entities subject to the Property Extension Limitation Law (PTELL) is capped to the lesser of 5% or CPI growth, plus new construction. Home rule municipalities, including Lake in the Hills have much greater legal flexibility than the rest of the sector with substantial revenue-raising authority. 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. Fixed costs are driven mainly by debt service and employer pension contributions. For single employer public safety plans, the State of Illinois requires most entities to make annual pension contributions that cover current benefit accruals, plus an amount designed to achieve a 90% funded ratio by 2040.

The village has a policy to maintain at least 25% of prior year expenditures for its operational needs. Historically the village has exceeded this amount. The village may modestly draw down reserves for capital projects over the next few fiscal years, but draws are anticipated to keep fund balance well in excess of the fund balance policy.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Lake In The Hills (Village of) IL

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$2,067,778	Aa
Full Value Per Capita	$70,746	Aa
Median Family Income (% of US Median)	131.6%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	64.7%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	14.4%	Aa
Cash Balance as a % of Revenues	60.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	13.1%	Aa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Notching Factors:[2]		
Other Analyst Adjustment to Management Factor (specify): Home rule municipality		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.1%	Aaa
Net Direct Debt / Operating Revenues (x)	0.1x	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.2%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.5x	A
Notching Factors:[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Material overlapping pension burden		Down
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: US Census Bureau, Moody's Investors Service

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MOODY'S INVESTORS SERVICE