

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa1 rating to St. Charles' (IL) \$2.37M GO Bonds, Ser. 2015

---

Global Credit Research - 23 Dec 2014

**Aa1 applies to \$92.5M of post-sale GOULT debt**

ST. CHARLES (CITY OF) IL  
Cities (including Towns, Villages and Townships)  
IL

#### Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2015	Aa1
<b>Sale Amount</b> \$2,365,000	
<b>Expected Sale Date</b> 01/05/15	
<b>Rating Description</b> General Obligation	

**Moody's Outlook** NOO

#### Opinion

NEW YORK, December 23, 2014 –Moody's Investors Services has assigned a Aa1 rating to the City of St. Charles' (IL) \$2.37 million General Obligation Bonds, Series 2015. Moody's maintains a Aa1 rating on the city's outstanding general obligation debt. The city will have \$92.5 million of GO debt following the current offering.

The current issuance is secured by the city's general obligation unlimited tax pledge, which benefits from a property tax levy that is unlimited as to rate or amount. Proceeds from the Series 2015 bonds will finance various capital, electric and street projects.

#### SUMMARY RATING RATIONALE

The Aa1 rating reflects the city's sizeable, mature and affluent tax base; sound financial operations supported by solid operating reserves despite some declines in operating revenues; and a slightly above average debt burden with limited future borrowing plans.

#### STRENGTHS

- Overall stable economy located in Chicago (Baa1 negative) metropolitan area
- Significant revenue raising flexibility afforded by Home Rule status
- Strong financial operations and solid reserve levels; alternate liquidity in Capital Fund

#### CHALLENGES

- Dependence on economically-sensitive sales tax revenues
- Structurally imbalanced operations in some of the city's TIF funds

#### DETAILED CREDIT DISCUSSION

#### MATURE AFFLUENT SUBURB LOCATED NEAR CHICAGO

Located in Kane (Aa1) and Du Page (Aaa) counties, St. Charles experienced assessed valuation growth through

2008, driven by its proximity to Chicago and surrounding metropolitan employment centers. Reflecting the broader real estate downturn, the city's estimated full valuation has declined on average by 4.0% annually since 2009, to a still sizable \$4 billion. The city is almost fully built-out and future development efforts will continue to focus on redevelopment. The city's formerly vacant Pier 1 Distribution center is now occupied by a printing company that has added approximately 180 new jobs. Q Center LLC and Pheasant Run Resort and Convention Center continue to have a significant presence in the city. Accenture Consulting currently leases the Q Center campus for use as an employee training facility. Residents enjoy numerous employment opportunities within the Chicago metro area. The city's unemployment rate of 4.7% for September 2014 is significantly lower than the rates for state (6.2%) and nation (5.7%) for the same time period. Income indices exceed national medians with median family income at 158.1%, according to the American Community Survey five-year estimates for 2008 - 2012.

#### **STRONG FINANCIAL OPERATIONS SUPPORTED BY SOLID RESERVES; GENERAL FUND SUPPORT FOR TIF BACKED DEBT EXPECTED TO CONTINUE**

The city's financial operations remain sound following prudent and proactive management practices during the economic downturn. The city continues to be supported by solid operating reserves, a demonstrated history of reacting quickly to budgetary challenges, significant alternate liquidity outside of the General Fund and a high degree of revenue raising flexibility inherent in being a home rule municipality. The city's General Fund benefits from a diverse composition of revenue sources, both discretionary and non-discretionary. The largest source of revenue historically has been sales tax (both state shared and Home Rule) accounting for 37.9% of General Fund revenues in fiscal 2014. Property taxes are the second largest revenue stream at 31.5%, with the remaining revenue sources comprised of state shared income tax receipts, charges for services, as well as hotel, utility, and telecommunication taxes. Despite revenue pressures, the city's General Fund balance continues to trend well above the city's official policy of maintaining 25% of budgeted expenditures in reserves.

Beginning fiscal 2008, the city began experiencing declines in sales tax revenues along with other economically sensitive revenue categories. In subsequent years the city reduced its operating budget and increased revenues, including a new alcohol beverage tax effective June 1, 2010. More recently, the city posted a moderate \$504,000 surplus at the close of fiscal 2014. The favorable result was driven by both strong revenue performance and cost containment measures. At fiscal yearend 2014, the total General Fund balance has reserved \$5.6 million in advances to other funds and assigned \$3.0 million for Community Development debt service. Outside of these reservations, the General Fund's unassigned balance was a solid \$15.6 million, or 39.4% of revenues at the end of fiscal 2014. City officials expect to maintain a consistent unrestricted fund balance come year-end fiscal 2015, which concludes on April 30, 2015. In addition to the General Fund, the city has alternate liquidity in its Capital Projects Fund. While these funds are earmarked for capital projects, they are available for General Fund operations should it become necessary, further strengthening the city's reserve levels. Providing additional financial flexibility to the city's credit profile is its status as a Home Rule unit of government. Home Rule governments in Illinois are not subject to levy limits, have no statutory debt ceiling, and can impose a variety of taxes, including sales, utility, hotel, and food/beverage.

The city oversees three enterprise operations: water, sewer and electric. The city's electric enterprise fund had a negative unrestricted net asset position of \$2.7 million but a positive cash position of \$680,000 at the close of fiscal 2014. Recent financial improvement is attributable to multiple years of rate increases. Additionally, the city has six tax increment financing districts. As of April 30, 2014, the city's TIF funds had a total deficit balance of approximately \$3.6 million and owe the General Fund approximately \$5.6 million, primarily due to annual transfers to cover debt service payments as increment revenues are insufficient. Officials expect the General Fund will be repaid with future tax increment revenues as development occurs.

#### **DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE SUPPORTED BY NON-LEVY SOURCES; AVERAGE PENSION LIABILITY**

The city's direct and overall debt burdens, at 2.5% and 5.3% of estimated full value, respectively, are somewhat above average but manageable given significant use of alternate revenue sources for repayment. Over 96% of the city's general obligation debt is paid from the city's various operating revenue streams and do not require support from the city's debt service property tax levy, which is abated on an annual basis. As a result, the city consistently makes large transfers from the General Fund to the Debt Service Fund to support debt service costs. None of the city's debt is in variable rate mode and the city is not party to any interest rate swap agreements.

St. Charles has a moderate employee pension burden, based on unfunded liabilities for two single-employer plans and its share of a multiple-employer agent plan administered by the state. Reported unfunded pension liabilities consist primarily of \$20.4 million for the single-employer Police Pension Plan and \$8.6 million for the Fire Pension Plan as of April 30th, 2014, and \$9.2 million for the city's portion of the statewide Illinois Municipal Retirement Fund

(IMRF) as of December 31, 2013.

The fiscal 2014 Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is \$86 million, or 2.07 times operating revenues. This figure includes unfunded liabilities associated with the city's employee participation in the Illinois Municipal Retirement Fund and two single employer funds for police and fire employees. The adjustments are not intended to replace city's reported liability information, but to improve comparability with other rated entities.

#### WHAT WOULD CHANGE THE RATING - UP

- Substantial growth in the city's tax base
- Improved performance across the city's TIF districts

#### WHAT WOULD CHANGE THE RATING - DOWN

- Significant erosion of the city's tax base and/or declines in the city's demographic profile
- Significant deterioration in General Fund reserves
- Ongoing General Fund support for the city's TIF districts that negatively impacts the city's operations or reserves

#### KEY STATISTICS

2014 Full Value: \$4 Billion

Full Value Per Capita: \$122,383

Median Family Income as % of US: 158.1%

Fund Balance as % of Revenues, Fiscal 2014: 44.68%

5-Year Dollar Change in Fund Balance as % of Revenues: 8.95%

Cash Balance as % of Revenues, Fiscal 2014: 33.13%

5-Year Dollar Change in Cash Balance as % of Revenues: -12.18%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt / Estimated Full Value: 2.3%

Net Direct Debt / Operating Revenues: 2.23x

3-Year Average ANPL as % of Estimated Full Value: 2.17%

3-Year Average ANPL / Operating Revenues: 2.1x

#### RATING 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.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where

the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

#### **Analysts**

Mark G. Lazarus  
Lead Analyst  
Public Finance Group  
Moody's Investors Service

Genevieve Nolan  
Additional Contact  
Public Finance Group  
Moody's Investors Service

#### **Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
USA

**MOODY'S**  
INVESTORS SERVICE

© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S**

**PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such

information.

**NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.**

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.