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

Sale Amount $2,365,000
Expected Sale Date 01/05/15
Rating Description 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.moodys.com for a copy of this methodology.

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