

RatingsDirect®

Summary:

Homer Glen, Illinois; General Obligation

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Credit Profile

Homer Glen Village GO bnds

Long Term Rating

AA+/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AA+' from 'AA' on the village of Homer Glen, Ill.'s 2012A general obligation (GO) bonds based on the application of our local GO criteria released Sept. 12, 2013. The outlook is stable.

The bonds are a GO of the village, payable from ad valorem taxes levied against all taxable property without limit as to rate or amount. The village has also legally pledged its one-cent home rule sales tax revenue toward repayment of the debt, and covenants to abate the property tax levy for the bonds only upon full funding of the levy amount from the pledged sales tax revenue.

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

- We view Homer Glen's local economy as very strong, with projected per capita effective buying income at 135% of the national average and per capita market value at roughly \$109,300. Homer Glen, with a population of 24,363, is a recently incorporated village that is located roughly 30 miles southwest of downtown Chicago in Will County. The county unemployment rate in 2012 was 9%. Residents benefit, in our view, from participation in the broad and diverse Chicago-Naperville-Elgin metropolitan statistical area. The village encompasses more than 22 square miles, consisting of open space and residential, commercial, and industrial properties. Equalized assessed valuation (AV) has decreased by an annual average of 5% during the past three years, but management believes it has bottomed out. The village levies no property taxes, and generates a majority of its revenue from sales taxes. The village's retail base has been expanding in recent years, and management reports that new development will continue to enhance this revenue source.
- We believe Homer Glen's management conditions are strong with good financial practices under our financial management assessment (FMA) methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring progress against the budget during the year, a formal fund balance policy that requires the village to maintain reserves equivalent to three to six months of expenditures, and long-term financial and capital planning.
- We believe Homer Glen's budgetary flexibility is very strong, with available general fund reserves at 56.8% of operating expenditures in fiscal 2013 (April 30). For fiscal 2014, we anticipate that general fund reserves will decrease by about \$1.5 million, following an estimated \$2 million transfer-out to the village's capital project and park funds. The estimated 2014 ending general fund balance will be in compliance with the village's fund balance policy to maintain three to six months of expenditures in available reserves. Management anticipates balanced general fund operations in fiscal 2015, and plans for no large transfers to the capital project and park funds. In our

opinion, reserves are a credit strength, as the fund balance has been above 30% of expenses for the past three years and we believe that it will remain so.

- In our view, very strong liquidity supports Homer Glen's finances, with total government available cash to government fund expenditures at 57.7% and cash to debt service at more than 47x in fiscal 2013. The village's annual debt service payments increased substantially in fiscal 2014 (to about \$2 million). However, based on projected cash levels, we do not anticipate that these carrying charges will pressure the village's liquidity position. In addition, based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.
- We believe Homer Glen's budgetary performance is strong overall, with consecutive surpluses in both the general fund and total governmental funds in fiscal years 2011 to 2013. The village ended fiscal 2013 with surpluses of 1.0% for the general fund and 45.2% for the total governmental funds. The operating surplus in the general fund was 52% before transfers-out to the capital project and park funds. The village has been making annual transfers to these funds, in anticipation of spending them down for various capital improvement projects, which began in fiscal 2014. As a result of these projects, management anticipates ending the year with deficits in the general fund and total governmental funds. Also in 2014, the village's debt service carrying charge increased to about \$2 million as the village began making payments on its 2012 GO bonds, which have a pledge of sales tax revenue. Although this will reduce the village's ability to transfer to the capital project and park funds, management does not believe that this will pressure ongoing capital needs. For fiscal 2015, the village projects balanced results in the general fund and another deficit for total governmental funds as the village continues to spend down reserves for capital projects. Because the projected deficits are a result of a planned drawdown of reserves, we do not believe that the village's structural budgetary performance will deteriorate.
- In our opinion, Homer Glen's debt and contingent liability profile is strong. Net direct debt to total governmental funds revenue is 106.2% and total governmental funds debt service to total governmental fund expenditures is 12.5%. Net debt (which includes overlapping debt) to market value is low, in our view, at 2.3%. In addition, 100% of the debt is scheduled to be repaid over 10 years. Both of these are positive credit factors, in our opinion. It is our understanding that the village does not plan to issue additional debt within the next two years. The village's employees are covered by the Illinois Municipal Retirement Fund, to which the village pays its full required contribution each year. In fiscal 2013, the village's contributions totaled \$87,000, or about 1.1% of total governmental funds expenditures. The village does not offer retiree health care benefits.
- We consider the Institutional Framework score for Illinois home rule villages strong. The village conducted a special census in 2008 that counted its population at a little more than 25,000, the minimum amount needed to achieve home rule status. Home rule status provides increased taxing and borrowing capacity as well as a wider array of tax sources with fewer limitations than for entities without this status. As such, the village imposes its own one-cent home rule sales tax, but there are other taxes it does not impose, such as a property tax, utility tax, food and beverage tax, or transfer tax. The village's population fell below the 25,000 threshold at the 2010 census, but voters approved a referendum in 2012 that allowed the village to retain home rule status.

Outlook

The stable outlook reflects our belief that the village will maintain very strong budgetary flexibility and liquidity during the two-year outlook horizon. We believe that the village's strong management policies and practices will enable the village to maintain structural balance. In the long term, if the village's tax base stabilizes and the village demonstrates a consistent ability to maintain balanced operations in light of rising debt service and capital costs, we could raise the rating. However, should the budget fall out of balance, substantially eroding reserves, rating pressure could arise. The

village's participation in the Chicago area economy provides additional rating stability.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, April 7, 2014
- Institutional Framework Overview: Illinois Local Governments

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