

CREDIT OPINION

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New Issue

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Village of Oswego, IL

New Issue - Moody's assigns Aa2 to Oswego, IL's \$25.4M GO Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Village of Oswego, IL's \$25.4 million General Obligation Bonds, Series 2016. Concurrently, Moody's maintains the Aa2 rating on the village's outstanding general obligation (GO) bonds. Post-sale, the village will have \$50.1 million of general obligation debt outstanding. The Aa2 rating reflects the village's moderately sized tax base with above average income indices; sound financial position supported by healthy operating reserves and bolstered by the financial flexibility afforded by the village's designation as a home-rule unit of government; and high overall debt burden.

Credit Strengths

- » Strong socio-economic metrics
- » Stable financial operations supported by healthy reserves
- » Financial flexibility derived from home rule status

Credit Challenges

- » High overall debt burden
- » Reliance on economically-sensitive sales and income tax revenues

Rating Outlook

Outlooks are generally not applicable for local government credits with this amount of debt.

Factors that Could Lead to an Upgrade

- » Significant expansion of the village's tax base
- » Moderation of overall debt burden

Factors that Could Lead to a Downgrade

- » Weakening of the village's tax base and/or demographic profile
- » Material declines in operating reserves

Key Indicators

Exhibit 1

Oswego (Village of) IL	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,672,391	\$ 2,512,639	\$ 2,340,811	\$ 2,237,029	\$ 2,241,806
Full Value Per Capita	\$ 86,822	\$ 81,712	\$ 76,124	\$ 72,749	\$ 67,728
Median Family Income (% of US Median)	159.0%	163.5%	163.5%	163.5%	163.5%
Finances					
Operating Revenue (\$000)	\$ 13,829	\$ 15,263	\$ 15,275	\$ 16,338	\$ 17,095
Fund Balance as a % of Revenues	31.7%	38.8%	37.0%	40.2%	40.8%
Cash Balance as a % of Revenues	19.5%	22.0%	23.5%	27.8%	27.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 36,574	\$ 17,325	\$ 30,830	\$ 15,520	\$ 14,355
Net Direct Debt / Operating Revenues (x)	2.6x	1.1x	2.0x	0.9x	0.8x
Net Direct Debt / Full Value (%)	1.4%	0.7%	1.3%	0.7%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.0x	1.3x	1.4x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.6%	0.8%	1.0%	1.1%

Source: Moody's Investors Service; Village of Oswego Audited Financial Statements

Detailed Rating Consideration

Economy and Tax Base: Moderately Sized Tax Base in Suburban Chicago With Significant Retail Footprint

The village's tax base will likely remain stable due to its location in the Chicago (Ba1 negative) metropolitan region, a sizable regional retail footprint, and considerable land available for future development. The village is located approximately 50 miles southwest of downtown Chicago. While the village's \$2.2 billion tax base experienced substantial growth in the early 2000s, valuation has declined in recent years, which village officials attribute to the broader real estate market downturn. The village's full valuation has declined by an average annual rate of 4.4% over the last five years. Most recently, the village recorded a 0.2% increase in full valuation in 2014. Based on new construction and stabilization in property values, management expects to see a 4.9% increase in the current year. Rapid residential construction since 1990 has led to tremendous population growth in this rapidly growing community, as evidenced by the 244% population growth rate from 1990 to 2000 and a 127.8% increase from 2000 to 2010. The population reached more than 30,000 by the 2010 census, a level which exceeds the 25,000 population threshold required to achieve home rule status in Illinois. Rapid population growth has fueled commensurate commercial expansion, bolstering the village's sales tax collections. Resident income levels exceed state and national norms.

Financial Operations and Reserves: Sound Financial Position

The village's financial operations are expected to remain stable as a result of conservative budget management practices and the financial flexibility derived from home rule status. Audited results from fiscal 2015 reflect a \$445,000 General Fund operating surplus. The favorable result was driven by strong sales and income tax revenues as well as favorable expenditure variances. The General Fund concluded the year with \$7.1 million in reserve, or 42.4% of revenues. The village's operating fund balance, which is comprised of General and Debt Service Funds, concluded the year with \$7.2 million in reserve, or 40.8% of operating revenues. Preliminary results for fiscal 2016 (which concluded on April 30) reflect a \$1.4 million draw on reserves. The draw was budgeted by management as a means of addressing various capital expenditures. Despite the draw, the village will maintain reserves in excess of its formal fund balance policy to maintain General Fund reserves in excess of 35% of expenditures.

Though sales taxes represent the village's single largest source of General Fund revenues (42.8%), the village's revenue streams are relatively diverse as they also include state shared income taxes (18.3%), and property taxes (7.9%). Although the village is reliant upon sales tax receipts, an economically vulnerable revenue stream, this risk is off-set somewhat by the financial flexibility afforded by the

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village's designation as a home-rule unit of government. As a home-rule government, the village can implement a variety of revenue enhancements and has broad ability to increase property taxes and sales taxes. On January 1, the village increased its home rule sales tax by 0.75% (to 1.25%), which will generate nearly \$3 million in new revenue annually.

LIQUIDITY

At fiscal year-end 2015, the village's net cash balance in the General Fund was \$4.7 million or 27.7% of revenues.

Debt and Pensions: Elevated Overall Debt Burden; More Manageable Direct Debt Burden

Given multiple supporting revenue streams and limited future borrowing needs, the village's debt burden is expected to remain manageable. The village's overall debt burden is very high at 10.6% of estimated full value. This figure largely reflects substantial school district borrowing in the surrounding area. Continued issuance on the part of Oswego CUSD 308 (Aa2) is expected to persist over the near term, as the district continues construction of additional school facilities and the expansion of existing facilities. At 1.9% of estimated full value, the village's direct debt burden is more manageable. All of the village's direct debt is supported by alternate revenue sources, including water and sewer fees, as well as sales and motor fuel tax receipts. Management does not expect any additional debt issuance in the near term.

DEBT STRUCTURE

All of the village's outstanding debt is fixed rate. Principal amortization is below average with 46% of GO debt retired within ten years.

DEBT-RELATED DERIVATIVES

The village is not party to any swap agreements.

PENSIONS AND OPEB

Oswego has an above average employee pension burden, based on unfunded liabilities for one single-employer plan and its share of a multiple-employer agent plan managed by the state. Reported unfunded pension liabilities consist of \$10.5 million for the village's single-employer Police Pension Plan and \$1.9 million for the village's portion of the statewide Illinois Municipal Retirement Fund (IMRF). The fiscal 2015 Moody's adjusted net pension liability (ANPL) for the village, under our methodology for adjusting reported pension data, is \$28.9 million, or 1.69 times Operating Fund revenues and 1.29% of the village's full value. The adjustments are not intended to replace village's reported liability information, but to improve comparability with other rated entities.

Management and Governance: Moderate Financial Flexibility

Illinois cities have an institutional framework score of "A," or moderate. Revenue predictability is moderate, with varying dependence on property, sales, and state-distributed income taxes. Revenue-raising ability is also moderate but varies. Home rule entities have substantial revenue-raising authority. Non-home rule entities are subject to tax rate limitations, and total operating tax yield for nonhome rule entities subject to the Property Extension Limitation Law (PTELL) is capped at the lesser of 5% or CPI growth, plus new construction. Expenditures are moderately predictable but cities have limited ability to reduce them given costs for pension benefits that enjoy strong constitutional protections.

Oswego has demonstrated a willingness to use its home rule authority, increasing revenues to assist with providing for balanced budgets. Furthermore, the village benefits from sound financial planning practices, including a detailed financial forecasting and capital planning process.

Legal Security

The bonds are secured by the village's authorization and pledge to levy taxes unlimited as to rate and amount.

Use of Proceeds

Proceeds of the 2016 bonds will be used to finance land acquisition and the construction/equipping of a new police headquarters.

Obligor Profile

The Village of Oswego is located in Kendall County in northeastern Illinois, approximately 50 miles southwest of downtown Chicago. Kendall County has a population of 121,350 and a population density of 379 people per square mile.

Methodology

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

Ratings

Exhibit 2

Oswego (Village of) IL

Issue	Rating
General Obligation Bonds, Series 2016	Aa2
Rating Type	Underlying LT
Sale Amount	\$25,355,000
Expected Sale Date	05/23/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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