MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Romeoville (Village of) IL

New Issue - Moody's Upgrades Romeoville's (IL) GO to Aa2: Assigns Aa2 to GO Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has upgraded the Village of Romeoville's (IL) General Obligation (GO) rating to Aa2 from Aa3. Concurrently, Moody's has assigned a Aa2 rating to the village's $13.5 million General Obligation Refunding Bonds, Series 2016. Post sale, the village will have $89.7 million in GO debt outstanding.

The upgrade to Aa2 reflects the village's healthy operating trend, conservative budgeting practices and healthy reserve levels. The Aa2 rating also incorporates the village's large tax base, financial flexibility derived from home rule status and the village's elevated debt burden.

Credit Strengths

» Stable financial operations supported by healthy reserve levels

» Financial flexibility derived from home rule status

Credit Challenges

» Reliance on economically sensitive revenues from sales and income tax

» Elevated debt burden

Rating Outlook

Outlooks are not typically assinged to local governments with this amount of debt.

Factors that Could Lead to an Upgrade

» Significant expansion of the village's tax base

» Significant improvements in the village's demographic profile

» Moderation of the direct and overlapping debt burden

Factors that Could Lead to a Downgrade

» Weakening of the village's tax base or demographic profile

» Declines in operating reserves or economically sensitive revenues

» Increases in the village's debt burden

Key Indicators

Exhibit 1

Romeoville (Village of) IL	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 3,495,963	$ 3,288,161	$ 3,103,757	$ 3,103,757	$ 3,116,804
Full Value Per Capita	$ 88,104	$ 82,867	$ 78,220	$ 78,220	$ 78,548
Median Family Income (% of US Median)	113.5%	114.0%	114.0%	114.0%	114.0%
Finances					
Operating Revenue ($000)	$ 38,847	$ 40,212	$ 41,899	$ 43,295	$ 50,229
Fund Balance as a % of Revenues	33.2%	37.2%	39.2%	41.6%	41.2%
Cash Balance as a % of Revenues	39.5%	37.2%	43.4%	49.0%	42.0%
Debt/Pensions					
Net Direct Debt ($000)	$ 85,436	$ 82,793	$ 99,264	$ 101,927	$ 98,984
Net Direct Debt / Operating Revenues (x)	2.2x	2.1x	2.4x	2.4x	2.0x
Net Direct Debt / Full Value (%)	2.4%	2.5%	3.2%	3.3%	3.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.8x	1.0x	1.1x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.0%	1.3%	1.5%	1.8%

The above table does not include the most recent sale data. The village's audited 2015 net direct debt totaled $99.0 million. Post sale, the village will have $89.7 million of outstanding debt, equal to an above average 2.9% of full value and 1.8 times Operating Fund revenues.
Source: Audited Financial Statements, Moody's Investors Service and U.S. Census Bureau

Detailed Rating Considerations

Economy and Tax Base: Sizeable Tax Base With Some Concentration

The village's $3.1 billion tax base is stabilizing. The village's equalized assessed valuation (EAV) declined at an average annual rate of 4.1% during the last five years. However, the tax base has stabilized in recent years, remaining relatively flat in 2014 and in 2015. Prior declines were attributed to deprecation across all property classes, most notably the residential and industrial property value. The village's tax base is comprised of approximately 46% residential, 43% industrial, 10% commercial and 1% farm and railroad property. Village management reports that there is continued residential and commercial development underway. The village's tax base is concentrated, as the top 10 taxpayers comprise 24.9% of the village's EAV and include PDV Midwest Refining (13.8% of EAV) and Hart 155 Industrial LLC (2.2% of EAV) and Duke Secured Financing 2009 (1.5% of EAV). The district's largest taxpayer, PDV Midwest Refining, lost an EAV challenge in 2010 and subsequently challenged the county ruling at the state level with the Property Tax Appeal Board (PTAB). During the PTAB process, the county and other taxing bodies continued negotiations with PDV Midwest Refining and reached a settlement in fiscal 2015. During the negotiation process, the Village of Romeoville continued to collect property taxes from PDV Midwest Refining and placed the revenue into an escrow account. As a result of the settlement, the village was allowed to keep the $4.3 million in taxes that it collected during the negotiation process and PDV Midwest Refining's EAV was lowered going forward. Village management reports that the decreased EAV will result in a net decrease in village property tax revenues of approximately $110,000, or 0.2% of Operating Fund revenues. Additionally, property taxes comprise 20.2% of the village's operating revenue, somewhat limiting the impact of issues stemming from tax base concentration.

Wealth indices of the village exceed the nation with median family income at 114% of the national median, according to 2008-2012 American Community Survey estimates. As of November 2015, the village's unemployment rate of 5.8% was is in line with the state rate (5.8%) though higher than the national rate (4.8%).

Financial Operations and Reserves: Healthy Financial Profile

The village's financial operations are expected to remain stable as a result of conservative budgeting practices and the financial flexibility derived from home rule status. The village closed fiscal 2015 with an Operating Fund (inclusive of the General Fund and

Debt Service Fund) deficit of $209,000 net of bond proceeds and the sale of capital assets, bringing the available fund balance to $20.7 million, or a still healthy 41.2% of revenues. The village's informal fund balance target is to maintain a minimum of 25% of the operating budget in reserves. The village's fiscal 2016 budget is currently tracking toward a $3 million operating surplus. The village plans to use $2.6 million of surplus for facility construction and equipment purchases, resulting in a net fund balance increase of $400,000.

The village maintains a diverse revenue stream but is also exposed to economically sensitive revenues. In fiscal 2015, the village's largest revenue sources included property taxes (20.2%), other taxes (17.8%), utility taxes (11.4%), charges for services (11.1%), intergovernmental revenue (10.9%) and sales taxes (10.6%). The state has proposed cutting the state shared income taxes to local governments by 50%. The village's state income tax revenue totaled $3.9 million in fiscal 2015, or 7.7% of total operating revenues. Favorably, the village budgeted for a 50% reduction in state income tax revenue during the 2016 fiscal year to prevent any potential operating pressure that could occur if the revenue is reduced by the state.

LIQUIDITY

The village closed fiscal 2015 with a net cash position of $21.1 million, or a strong 42.0% of Operating Fund revenues.

Debt and Pensions: Elevated Debt Burden

The village's debt burden is expected to remain above average in the near term. The village's audited 2015 net direct debt totaled $99.0 million. Post sale, the village will have $89.7 million of outstanding debt, equal to an above average 2.9% of full value and 1.8 times Operating Fund revenues. The overall debt is an elevated 6.1% due primarily to school district debt issued in response to rapid population growth in the last decade. The district's fiscal 2015 fixed costs (inclusive of debt service, pension contributions and OPEB) totaled $9.9 million, or a significant 19.8% of Operating Fund revenues.

DEBT STRUCTURE

All of the village's debt is fixed rate, with 72.1% of principal amortized over the next ten years.

DEBT-RELATED DERIVATIVES

The village is not a party to any derivative agreements.

PENSIONS AND OPEB

The village's pension liabilities are expected to remain above average. The village's liabilities are related to single employer defined benefit police and fire pension funds and the Illinois Municipal Retirement Fund, a multi-employer agent plan. The villages three year Moody's adjusted net pension liability (ANPL), under our methodology for adjusting reported pension data, is $56.3 million, equivalent to an above average 1.8% of full value, or 1.1 times revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace city's reported liability information, but to improve comparability with other rated entities.

Management and Governance: Moderate Institutional Framework; Conservative Budgeting Practices

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 non-home 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.

Cities may be exposed to declining state payments if shared income tax receipts are cut as recommended by the governor. The village's state income tax revenue totaled $3.9 in fiscal 2015, or 7.7% of total operating revenues. Favorably, the village budgeted for a 50% reduction in state income tax revenue during the 2016 fiscal year to prevent any potential operating pressure that could occur if the revenue is reduced by the state. The village also benefits from voter authorized home rule authority which provides significant financial flexibility. The village's revenue raising flexibility significantly enhances its credit profile. Additionally, the village currently pays for a majority of its debt service with General Fund revenues, which provides the village with additional revenue flexibility as it could chose to levy for debt service payments in its debt service fund.

Legal Security

The village's outstanding GO debt, inclusive of the current issue (Series 2016), is secured by the village's unlimited tax pledge in which the full faith, credit and resources of the government is pledged, and will be payable from a dedicated ad valorem tax, which may be levied without limitation as to rate or amount.

Use of Proceeds

Proceeds from the 2016 bonds will be used to advance refund the village's General Obligation Bonds, Series 2007B for interest cost savings. The estimated net present value savings total $500,000.

Obligor Profile

The village is located in Will County (Aa1), approximately 26 miles southwest of the City of Chicago (Ba1 negative). The village encompasses approximately 20 square miles. The village's population totals approximately 40,000 residents and has grown significantly in recent decades, increasing by 50.3% between 1990 and 2000 and by an additional 87.6% between 2000 and 2010.

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

ROMEOVILLE (VILLAGE OF) IL

Issue	Rating
General Obligation Refunding Bonds, Series 2016	Aa2
Rating Type	Underlying LT
Sale Amount	$13,495,000
Expected Sale Date	03/29/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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